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AS momentous developments continue to take place abroad—and as U. S. defense plans become more far-reaching in their effects—a new approach to investing is necessary . . . based on the readjustments that business and industry will make under these unprecedented circumstances.

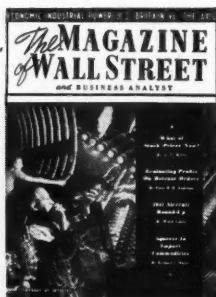
Geared to these war-paced markets, and our changing economy, The Magazine of Wall Street *digests, interprets and applies* to business and investments all of the important developments of the fortnight in foreign affairs, legislation . . . government controls and taxation . . . industry . . . and specific companies . . . provides you with a sound, workable investment plan attuned to today's new requirements.

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# With The Editors



## The Human Element

If you over-exert yourself or over-indulge at an age when you shouldn't, you will not be surprised by resulting symptoms of bodily distress. The relationship between cause and effect is simple and obvious. But, as every good doctor knows, a *state of mind*—especially fear and worry—also produces adverse *physical* reactions. Here there is no relationship of physical effect to physical cause. And the patient, if his case is serious, needs the help of a psychologist or psychiatrist rather than of a physician.

These observations have a practical bearing upon the seemingly mysterious fluctuations of the security markets. We often remind ourselves of them when some analytically minded gentleman argues with us that stock prices in general or particular are "too high" or "too low" in relation to statistically measurable factors.

It is true that fluctuations in stock market values have a very approximate and widely varying relationship to changes in earning power and prospective dividends. But in equal, if not greater degree, fluctuation in values is merely fluctuation in the *state of mind* of investors and speculators.

You cannot explain statistically why United States Steel common attained a high of 71¼ in 1938, in which depression year it reported a *loss* of \$3.78 per share, against a price now of 54 for 1941 earnings which at a minimum should be \$6 to \$8 per share.

It's the abnormal war influence, you answer. Well, let's take another example and from a period before the war. Take American Snuff over the period 1935-1938. Its earnings and dividend long had been notoriously stable. It earned \$3.29 per share in 1935, \$3.32 in 1936, \$3.13 in

1937, \$3.32 in 1938. It paid \$3.25 in each year. There was no tangible statistical basis in any of those years for calculating on either a higher or a lower dividend, taking into account earnings and financial strength. Yet the stock sold as high as 76 in 1935 and as low as 45¾ in 1938, the range of yield being from approximately 4.3 per cent to 7.1 per cent. What was fluctuating here? Chiefly the state of mind of investors.

The general state of mind has now been in an underlying downtrend for more than four years—since the spring of 1937. It may go lower, but clearly it is already far down in the range of conceivable fluctuation. Apart from the news and the statistics, there seems to be a natural law of rhythm which governs these long term swings.

"Stocks are neither high nor low, 'Tis only thinking makes them so."

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### ★ ★ ★ IN THE NEXT ISSUE ★ ★ ★

#### Inflation

To What Extent? — In What Direction?  
What to Do About It, Now and Later

By JOHN D. C. WELDON

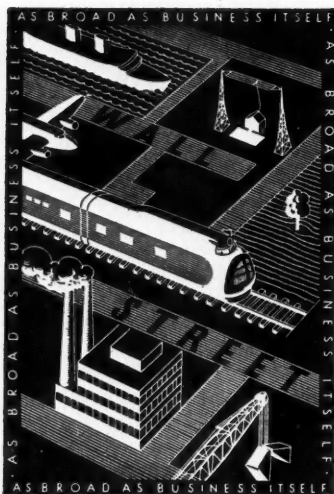
#### Outlook for Public Utilities in a War Economy

By FRANCIS C. FULLERTON

# THE MAGAZINE OF WALL STREET

G. G. WYCKOFF, *Publisher*

LAURENCE STERN, *Managing Editor*



## The Trend of Events

**DEFENSE BUNGLING . . .** While this publication supports the Roosevelt foreign policy, it is well aware that it can not be effective—and may prove disastrous—unless it is backed up by a maximum of armed power at the earliest possible time. We have long had an uneasy feeling that the defense program was being bungled. Without the inside facts at our command, we kept silent. Now, however, our worst misgivings are vigorously confirmed by Mr. Raymond Clapper, Scripps-Howard columnist, a notably fair-minded, objective observer of the Washington scene.

Mr. Clapper reports, in effect, that the top administration of the program is bogged down in inefficiency, indecision, divided authority, political feuding, bad planning. He lays the blame first upon Mr. Roosevelt, second upon the Army High Command and third upon some of the "business as usual" industrialists of OPM.

"We are racing into a general bottleneck next year," he says, "that will choke our whole program down—unless there is planning for it and action on a far more sweeping and ruthless scale than has been the case thus far. No wonder the British sigh wearily when they think about it."

On top of this, in a feature article in the current *Reader's Digest*, Representative Ross Collins (Demo-

crat, Mississippi) makes a devastating indictment of the present Army set-up. Mr. Collins for years has devoted his chief Congressional work to Army appropriations and organization and is widely recognized as an authority on these matters. He has been years ahead of the High Command in urging development of a powerful air force—especially heavy bombers—coordinated with a compact, mobile, thoroughly trained, highly mechanized land army.

Despite the lessons of the present war, he says, the Army—commanded by high officers averaging sixty years in age and for the most part steeped in tradition—is going ahead with plans for an out-moded mass army of 4,000,000 men, inadequately trained, inadequately mechanized, inadequately co-ordinated with the air arm. In France it was such a mass army that was smashed by the co-ordinated drive of approximately 150,000 mechanized German troops and overwhelming air forces.

As we see it, there is crying need for a new deal all around. Mr. Roosevelt should confine himself to formulation of broad policy and objectives which, in addition to his inescapable routine duties, is all that any President could possibly have time to handle effectively. He should delegate command of the defense program to a single outstanding executive—the ablest, toughest, hardest-

BUSINESS, FINANCIAL and INVESTMENT COUNSELORS 1907—"Over Thirty-Three Years of Service"—1941

driving administrator that can be found. He should be a man unhindered by leanings either to business as usual or politics as usual. We can think of three qualified candidates offhand—Bernard M. Baruch, Mayor La Guardia, Deputy OPM Administrator William L. Batt—and there must be many others.

And there is too much at stake—as well as too many indications that all is not well—to justify blind public faith in our Army bureaucrats. The planning and administration of the Army should be subjected to thorough and competent Congressional investigation. To keep at continuing grips with this problem it might be well to consider establishing a non-partisan, super-advisory commission made up of a not too great number of Congressional and civilian experts of calibre commanding public confidence.

This is a very dangerous world in which to talk big—but lack the force to act big. Defense bunglers are letting the British down, letting the American people down and courting disaster for this Nation.

**MORE TAXES, LESS REFORM . . .** The objectionable thing about the Treasury's revised recommendation on excess profits taxes is not the heavy added load that would be placed upon corporations but the method and tax philosophy involved. The Treasury would do away with the present optional "average earnings" base in favor of a single yardstick of what constitutes "excess" earnings—the yardstick being return upon invested capital.

It is one thing, and entirely valid, to tax—even up to 100 per cent—true excess profits which have their origin in the armament activity. But the Treasury seeks to go beyond this principle. It would define as "excess" profit any profit over a "normal and fair" rate of return—this rate to be designated by the Government—regardless of whether armament activity had anything to do with such earning power.

There is, of course, no such thing as a "normal and fair" rate of return upon capital invested in private enterprise. Such returns vary widely in proportion to the varying economic characteristics of different types of enterprise and the varying abilities of management, not to mention other conditioning circumstances. To hold that any given rate of return is "normal and fair" for any and all corporate enterprises is absurd. If the time ever comes when the percentage of return that enterprises may earn on invested capital is determined by political law, rather than economic and competitive law, we can kiss our private enterprise system good-bye.

Some theorists in high places in Washington are working exactly to this end, hoping that the defense emergency will serve as the lever to put it over. Whether or not they had anything to do with shaping the Treasury's revised program, it certainly is "right down their alley." Congress rejected this reform tax philosophy in the tax legislation of 1940. It is to be hoped that it will do the same again. There is only one proper way to get more tax revenue out of prosperous non-defense enterprises. That is to raise the normal corporate income tax for all business, in addition to levying on excess armament pro-

fits as fairly as they can be determined. This way is to play the game under the accepted rules. The Treasury's way would be one more long step toward Government-run-everything—the kind of all-dominant government that we profess to abhor in other parts of the world.

**RAILROAD WAGES . . .** As compared to the upstart C. I. O., the railroad brotherhoods consider themselves the old aristocracy of organized labor. It is, therefore, appropriate that their demands should be far more grandiose and awe-inspiring than any heretofore made—and almost invariably won—by C. I. O. unions in the mass production industries.

The brotherhoods will be satisfied with nothing less than a 30 per cent increase in pay, vacations of two weeks with pay, expense allowances on runs that keep them away from home beyond certain designated times, and various "make work" adjustments. At least, that's what they say. No doubt they also reason, as do most unions these days, that the higher their initial demands the better the eventual compromise.

They make the familiar arguments. Their wages are now "out of line" with those in various other industries. The cost of living is "soaring," etc. They ignore the fact that their annual wages and purchasing power are already far above the level of 1929. They are not interested in the fact that the railroads' present semi-prosperity—the first in a decade—is temporary. They are content to let stockholders and bondholders worry about such irrelevant matters as dividends, bond interest and the solvency of the carriers.

In all seriousness, we contend that if any wage increase at all has to be granted to the railroad unions it should be only with the formal agreement that it represents a sharing of temporary earning power and that it is to be rescinded when this earning power evaporates, rather than be frozen permanently into the railroad cost structure.

**MOVING ON . . .** In emphasizing that public opinion polls show a great majority of our people opposed to active entry into the war our isolationists—notably Col. Lindbergh—studiously ignore the qualifications.

It is true that a recent Gallup poll indicated 81 per cent against going into war at present, but the same poll put the following question to the same people: "If it appeared certain that there was no other way to defeat Germany and Italy except for the U. S. to go to war against them, would you be in favor of the U. S. going into the war?" On this basis, 68 per cent said they would favor war, 24 per cent were opposed and 8 per cent were undecided.

In April a Gallup poll showed only 41 per cent in favor of U. S. naval convoys under the then existing conditions. In May a similar poll showed this figure had risen to a majority of 52 per cent. Whatever the form of the question, it appears undeniable that American public opinion is gradually and steadily hardening against the Axis—moving toward conviction that we should do whatever is necessary to prevent a Hitler victory over Great Britain.

# As I See It!

BY CHARLES BENEDICT

## THE HOME FRONT

ANY realistic appraisal of the Axis line-up in Africa brings home—unfortunately to many for the first time—the direct danger the U. S. A. is today facing, although the extent of Nazi ambitions has been evident for a long time past. Whatever ideas we may have had before, events since 1939 made it crystal clear that Germany was not merely fighting to rectify the wrongs of the Versailles Treaty—or seeking Lebensraum—but was definitely out for conquest of the whole world, if that were possible.

Since 1939 Hitler has reached out and looted every nation in Europe—snatched the bread out of its mouth, murdered and dispersed its people, separating man and wife, even infants from their mothers, moving Germans in on their property.

He ruthlessly destroyed the existing economic machinery in these countries and established the system that suited his purpose better. The rights and interests of nationals were not considered. Simultaneously Nazi social and political ideology was enforced by the Gestapo with all its contempt for non-Germans, its brutal intolerance and barbaric cruelty.

Even Nazi sympathizers wondered at such destruction of life and property. The answer is that the madmen who rule Germany, with Hitler as chief executioner,

have undertaken the self appointed task of ridding the world of its "over-population," by killing off "weak races,"—and rooting out "degenerate" democratic ideas,—with a place specially reserved for the U. S. A. when they are ready to tackle us.

Recent events bring the Nazis very close. With French connivance they have established a base at Dakar. Their influence menaces the Panama Canal from Martinique. If they succeed in the Near East they would be able to join forces with Japan in the Pacific. The recent striking naval engagement in the waters around Greenland finds Hitler already penetrating our defense zone.

We are facing a resourceful and ruthless foe who hates us, and of whose diabolical ingenuity we have recently had such a striking example in the struggle for Crete.

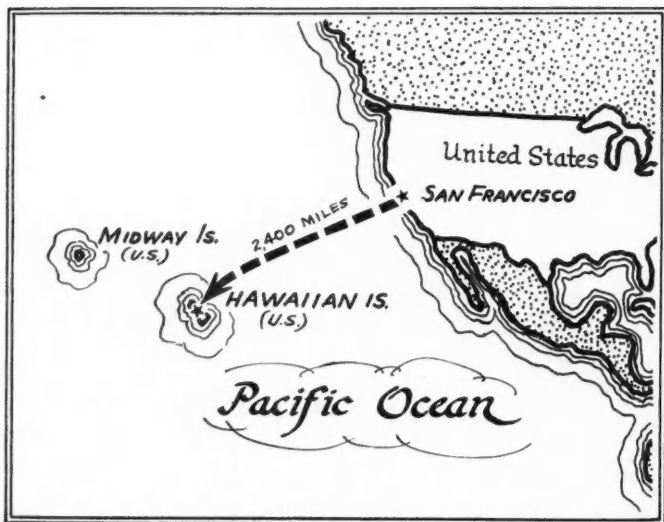
We just cannot permit the opposition to lull us to sleep, to sap our strength by their defeatism. We are young and strong and free men, inheriting the unconquerable spirit of our ancestors who came to this new land—willing to endure its hardships in order that they might call their souls their own—to practice their religion as they saw fit, to be men in a land of free men. We, of all the people in the world, have the "stuff" to beat the Nazi menace. We are descended from rebels against oppression. From men ready to die for freedom.

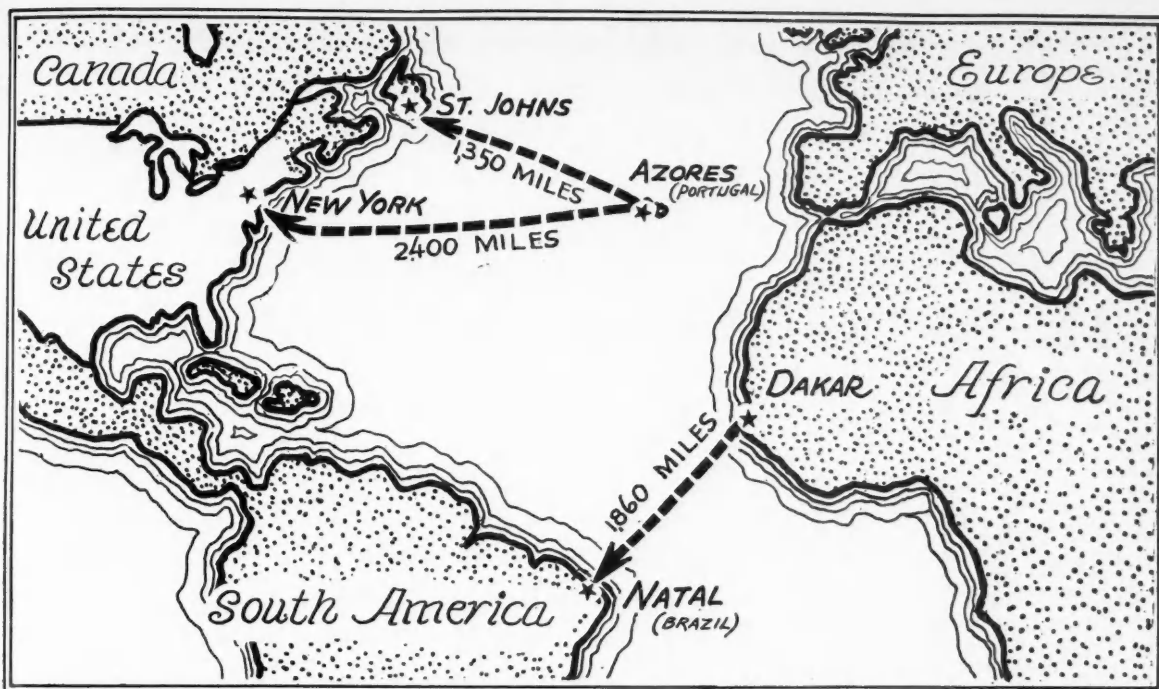
The Nazi menace is already within our borders, softening us up. Under the lash of this danger, we must whip our instinct of self preservation to attention. To retain our status as free men now, we will have to fight with every ounce of energy and without stint of our treasure. It is no longer a question of bickering about aid to Britain. The war is now on our own threshold.

Instead of Germany standing alone, it is the United States who stands alone—supported only by the naval might and merchant marine of a bleeding Britain, whose strategic naval and air bases throughout the world have become vital to our defense. From South America we can expect only moral support, with the scales pretty evenly balanced for and against us at that. Let there be no mistake about it.

Under such circumstances, the complacency with which the opposition asks us to gamble with our future is absolutely appalling!

They remain unconvinced despite the many





times German spokesmen have laid claims to the United States as a development of German immigration; and despite openly discussed plans of conquest of this country.

The indiscretion with which the Germans have discussed the American situation may, of course, be due to the contempt they have for our sophistication and intelligence. It was Mussolini who said in 1935: "Our enemies, the Democracies, are too stupid to be dangerous."

The Nazis have apparently been relying on it. It now appears that wishful thinking and plans for "appeasement" were responsible for the belief that France and Spain were independent states—for France, it would seem, had agreed to the use of her African colonies in the Armistice terms. It is evident that both of these countries, under the influence of Germany, have been instructed to feign neutrality for the purpose of securing every advantage they could from Britain and the United States. Judging from recent disclosures, the Democracies are still "innocents abroad."

How much longer are we going to be influenced by gullible leaders and the ruthless elements who use them as a cloak for their own ends? Do we need to be disillusioned any further about Spain? About the men of Vichy—about Petain—about Laval who sold out first to Mussolini and then to Hitler—about Bonnet of whom the wits said he "was in the pay of every European government except France"? We see in the men of Vichy the reason for the fall of France—the treacherous ignoble characters, who, for personal gain would sell out Britain and the United States as well.

The evidence of German intentions is overwhelming. Even in the midst of her efforts in Europe, she has been staking out her campaign for the Americas and laying the ground work for complete penetration, under the guise of a Spanish Falangist movement, with Nazi rep-

resentation in every Spanish consulate and legation in the Americas. The Nazis do not allow the grass to grow under their feet.

If, in spite of these established facts, the *sincere* opposition still lacks the foresight and imagination to recognize the truth of the situation, let them read it in the public announcement in the Tokyo Japan Times Advertiser, foreign office organ, which on April 29, 1941, presented what is called "exploratory" peace terms, to end the present war and establish a new world order. In referring to the United States it said:

"The United States sphere of influence would be Canada, Central and South America, Newfoundland and Greenland with islands and regional waters, *but the United States would undertake not to form hegemony over South America inimical to the Axis and would accord the fullest freedom and equality of opportunity to Germany and her allies in that continental brotherhood. No American naval bases would be west of Hawaii, and that stronghold would be reduced in importance.*"

At the same time that Japan relegated the United States to an inferior status, this "exploratory" peace proposal closed the doors to American trade in the Far East, and shut us out of Nazi dominated territory as well.

The campaign follows the familiar pattern with which the Nazis have subjugated other peoples—ever increasing demands, with one step at a time. For the Nazis, it would mean the gradual infiltration to this hemisphere, without war, if possible. For Japan, eventual control of the Hawaiian Islands, and a continuous edging across the Pacific to her objectives in California and Mexico, not to speak of the entire West coast. In view of what has already happened, such objectives and ambitions cannot be ignored by us as fantastic any longer. The Japs, too, are talking of "lebensraum."

Unless we unite and bend (Please turn to page 214)

With This Issue of The Magazine of Wall Street We Begin as a Continuing Feature an Expanded Analysis of Trends in the Securities Markets and of Group Variations Behind the Averages, Together with New Graphs Which We Believe Investors and Traders Will Find Highly Useful

## The Wisest Investment Policy Now

BY A. T. MILLER

*Summary of the Fortnight: Stock market averages continued sidewise drift, reflecting close balance of supply and demand at very low volume levels. Our index of high grade investment stocks made a new low for the war period. The ratio of our weekly index of 290 stocks to our business activity index reached a new low. Our composite averages of medium grade and speculative preferred stocks were only nominally changed at levels fairly close to recovery highs. High grade bond market was steady and narrow. Medium grade and speculative rail bonds moderately extended their reaction from overbought position.*

It would be a futile strain of the imagination to attempt to read technical significance into the recent minor fluctuations of the stock market averages. The Dow-Jones industrials have been confined to a range of only a trifle more than 2 points for two weeks. Indeed, for six weeks this normally volatile average has been slowly going nowhere.

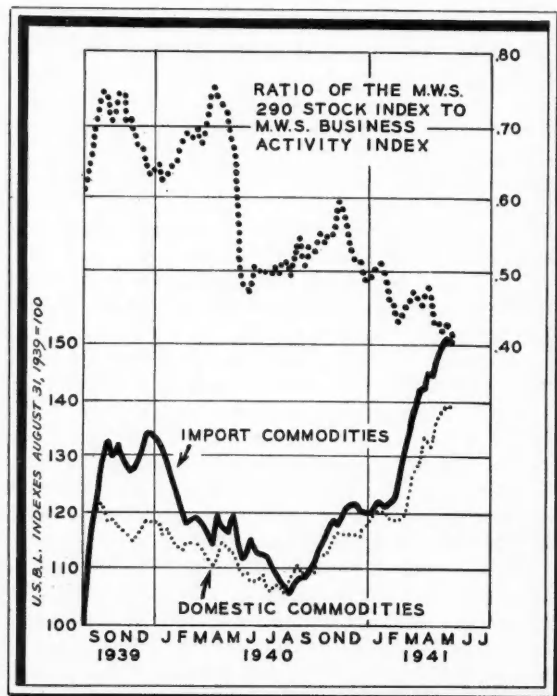
At this writing it is less than 1½ points above the year's low of 115.30, made on May 1. That is uncomfortably close; and with demand at very low ebb, light and scattered selling is sufficient to push many individual issues to new lows.

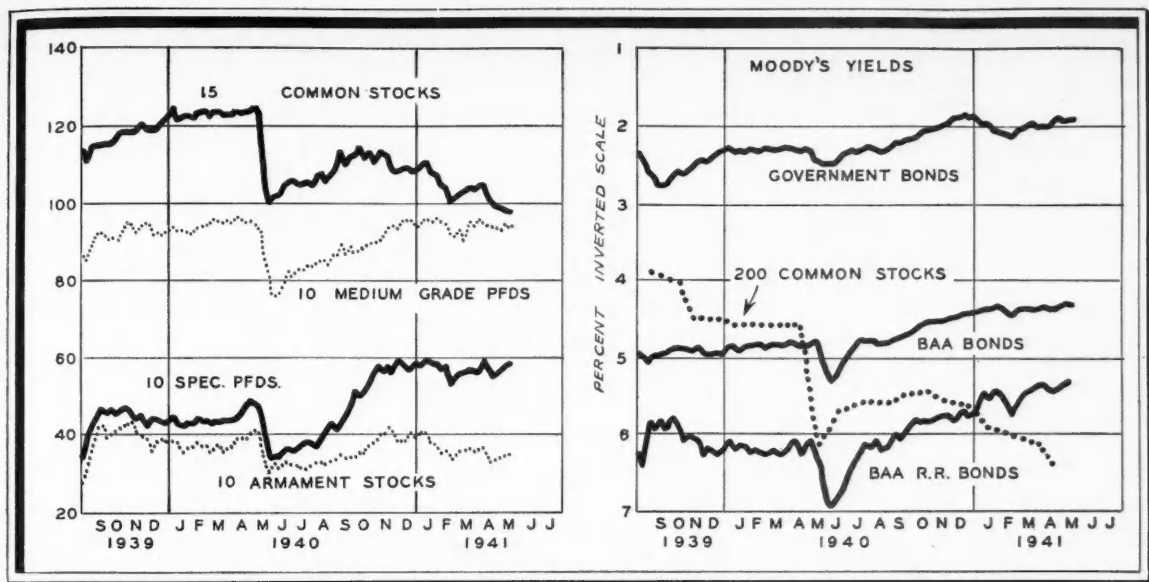
It can be argued that the market on the whole shows notably encouraging resistance in the face of bad news; that the minds of the great bulk of investors have by now been psychologically adjusted to almost every conceivable adverse contingency; and that the speculative position capable of being liquidated is notably small. It can also be contended that low volume and "line formation"—coming after total decline of nearly 23 points in the industrial average from the intermediate high of last November—is subject to potentially bullish interpretation.

But while the recent news of greatest market interest was generally adverse, it was not in any sense decisive. We are still in the dark as regards the ultimate outcome of the war, the full role of the United States in the critical months ahead, and the all-important details of the Federal tax legislation to be formulated this summer.

Has the market really discounted every probable adversity? We concede that it *may* have—but pending further practical test we believe it logical to assume that the recent and current do nothing performance chiefly reflects a mere suspension of judgment among investors and traders. Over the long period since this market came under the spell of foreign developments, there has been nothing of lasting technical significance in low volume "line formations." The direction in which these frequent lengthy trading ranges have been broken has almost invariably coincided with the direction of unpredictable news relating to war.

It is undoubtedly true that both technically and psychologically the market's position is far stronger than it was in the spring of last year just prior to the shocking news of the German sweep through France. In the pres-





ent setting it is virtually impossible for us to conceive of a panicky collapse of values. Moreover, we think it probable that a diversified list of equities bought now will show profits within a period of months.

But assuming all this, is there any need for hurry? Is the market likely to begin a broad advance in the immediate future? We doubt it very much. If this view is correct, there is nothing to be lost by deferring for the present purchases which are aimed at capital appreciation and something—whether little or not—*may* be gained. If investment and speculative demand should continue around existing low levels, even a slight swelling in the trickle of liquidation could suffice to put the averages to new lows.

We do not know the shape of the war events to come—but in general the British remain on the defensive and the initiative continues to lie with Hitler. To the extent that a complete Nazi victory hinges on invasion and conquest of the British Isles, we are fairly confident it will not come to pass this summer or this year. But is this contingency all we need worry about?

The prospect of a *decisive* improvement in Britain's war fortunes this year seems much slimmer than the slim German prospect of complete victory. But for Hitler there may be an adequate alternative to full destruction of the British bastion. It is to put Germany in so formidable a defensive position as to make probable a war stalemate and a negotiated peace ultimately on terms satisfactory to the Nazis—unless the people of the United States are willing to face the bleak prospect of fighting an all-out offensive war over a period of years at a cumulative cost in wealth and men beyond all calculation but of staggering proportions.

Certainly we can expect—in this period when Hitler is striving desperately both to strengthen the German position and to weaken the will of America for intervention—further diplomatic and war moves which will be disagreeable to us. It would be foolish to ignore some of these possibilities. They include more positive cooperation with Germany on the part of France, Spain,

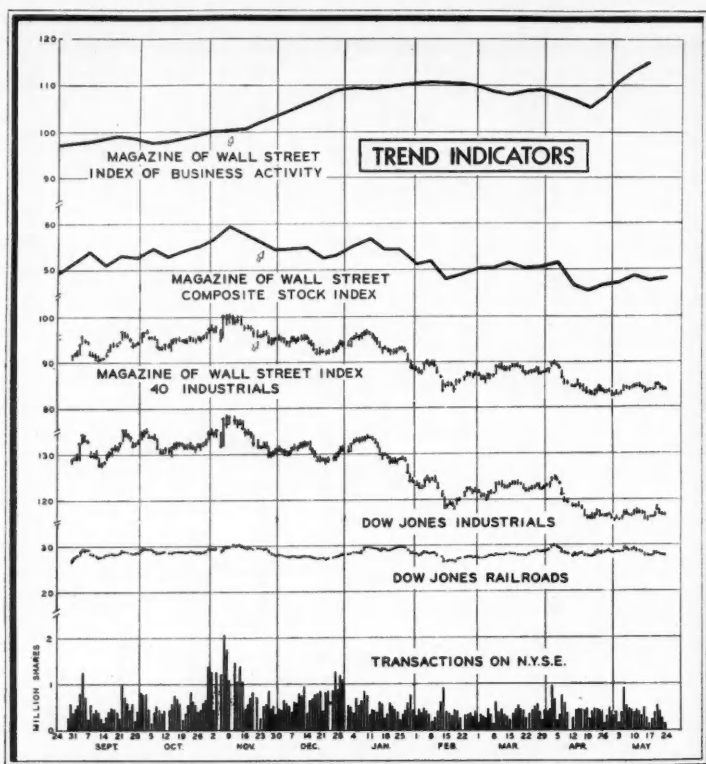
Russia and Japan. They may include loss of the Near East, North Africa, and British control of the Mediterranean. Between now and autumn they very probably will include further sinking of both merchant ships and British naval ships at a rate exceeding new production.

In short, what seems the liveliest war threat is not early invasion of England, but relatively early joint control by Germany and her allies of the tremendous land mass embracing continental Europe, North Africa, the Near East and much of Asia. In that case the British—and we—probably would have to abandon the notion that the totalitarian powers can be defeated by sea blockade. And in that case we would have the choice of taking on the main burden of a long war for which we are not morally prepared at present and for which we can hardly make adequate physical preparation for several years to come; or of adjusting ourselves to a more or less permanent armed camp way of life in a world in which the Nazis have considerable to say.

On the whole, we can not feel certain that the full economic and financial implications of a highly uncertain world future have really yet sunk in on the American mind or been "discounted" by the market. We *hope* they have been, and we have a kind of blind faith that before the summer is out the foundation for a better market trend will probably have been established—but meanwhile we believe that at best the recent average lows probably will be subjected to one or more tests of pressure.

Meanwhile, also, uncertainty as to the final form of the coming Federal tax legislation acts as a severe brake upon investment demand for reasons we need not expand upon. No intelligent investor likes to buy a pig in a poke. Yet until we know what compromise Congress will work out and how much it will deviate from the Treasury's recent highly unpalatable suggestions for excess profits taxation, adequate basis for figuring the 1941 profits that any company may have left for shareholders can not be had.

All seem agreed that the normal income tax rate for all



business enterprises will be sharply lifted, probably to a maximum of 30 per cent. The major uncertainty is whether taxes on "excess" earnings will continue to fall chiefly on actual beneficiaries of the armament activity, as at present, or whether—in some modification of the Treasury's plan—they will also hit in more or less degree earnings of prosperous non-armament enterprises. The present attitude of Congress on this seems generally reassuring—but, of course, it carries no guarantees. And the tax bill that Congress will finish in July or August will certainly be shaped in some part according to what develops in the meanwhile as regards the U. S. war policy.

It is pertinent to note, as shown on one of the accompanying graphs, that the tax factor seems to be playing a larger part in the continuing deflation of the majority of high grade investment equities than the war uncertainties.

Our index of 15 such stocks stood at approximately 113 just prior to the war, advanced to a high of 124 in January, 1940, reacted to 100 in May a year ago, rallied to approximately the pre-war starting level in October and November, but has been in a rather persistent downward trend in recent months of increasing attention to taxes. For the latest week it slipped to a new low at 97.66.

Normally, persistent weakness in high grade investment equities is a signal of general market danger. But normally a deteriorating investment position would also be reflected in weakness in the more speculative types of preferred stocks and bonds. Since this is not a normal market, it may easily be wrong to attach general trend significance to the varying performances of different types of securities.

The background factors responsible for the former

investment attraction of many well known common stocks have weakened. Relative to this, the factors relating to values of many speculative preferred stocks and bonds have strengthened. This contrast in patterns is strikingly reflected in our accompanying average of 10 speculative preferred stocks. It made its recovery high to date not in the initial weeks of the war, nor in 1940, but in January of this year; and since then has been fairly steady within 3 points of its absolute high. Taking the entire war period, this group at present shows a net appreciation of about 72 per cent; while our average of 15 high grade common stocks shows a net decline of more than 13 per cent.

For eight months our average of 10 medium grade preferred stocks has held within a range of about 5 points, is now only some 4 points under 1940-1941 recovery highs and shows a net gain of about 7 points for the war period.

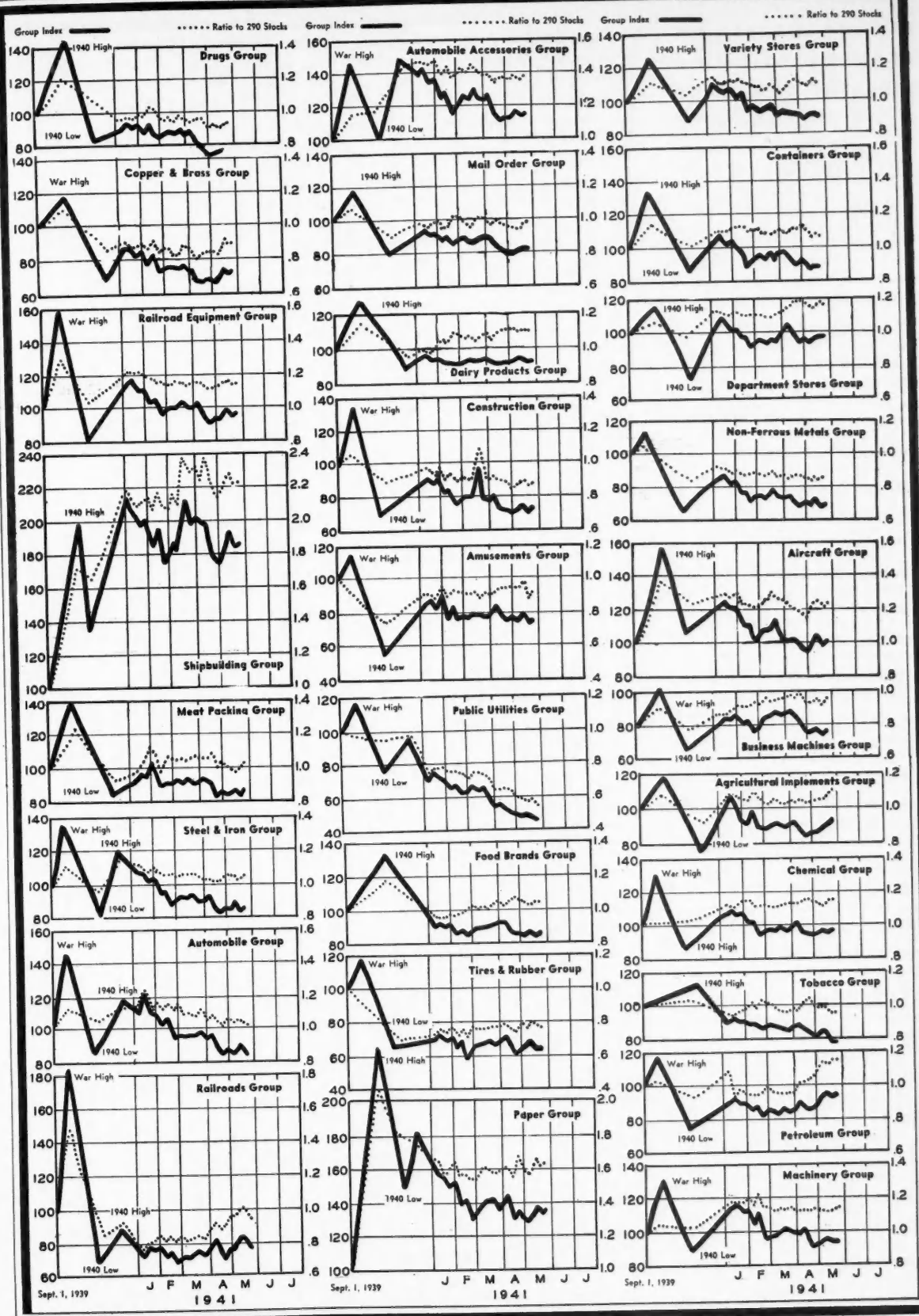
One of the most interesting of our new graphs is that of 10 representative armament equities. If anything were needed to bring home at a glance that World War history has not repeated itself in this stock market, this graph should do it. True, the group shows a net gain of 22 per cent for the war period to date, but the base of comparison is extremely low and the percentage appreciation—reversing the normal relationship—is far less than the percentage gain in composite earnings. This average made its most recent high in November, 1939. It is now uncomfortably close to its 1940 low.

On the last page of this article we present charts of 30 groups of common stocks. The solid line is an index of price movement over the war period to date, the closing level for the week preceding start of the war being the base. The dotted line is the ratio of this price movement to the price movement of our composite weekly index of 290 issues. When the dots run straight, the group is moving in line with the composite average. Dots running up or down mean, respectively, better or worse group action than the market average.

Over the past fortnight agricultural implements, chemicals, food brands, mail order stocks, meat packing, copper, petroleum, tires and variety stores did better than the market, although only the first five showed actual net gain. The more important groups which declined more than the market average were utilities, rails, automobiles, shipbuilding and amusements.

*Conclusion: We see no imminent risk of missing the boat by deferring all commitments aimed at market appreciation. We believe investors primarily concerned with income return should maintain a comfortable liquidity to the extent compatible with individual circumstances. If new commitments for income return are necessary or desired, we believe the major portion of funds utilized should be invested in carefully selected bonds and preferred stocks.*

—Monday, May 26.



# PART 1—BROADENING REGIMENTATION OF INDUSTRY AND TRADE IF WE GO "ALL-OUT"

BY H. M. TREMAINE

stand alone, virtually surrounded by hostile nations. As far as the shock of actual "shooting participation" is concerned, this should not be extreme to the clear-thinking analyst of national affairs. For our Government has already taken a positive stand which calls for defeat of the Axis and we have gone too far to turn back.

Not only is this true as reflected by our diplomatic and economic offensive against the Axis powers and the breakneck effort of our aid to Britain, but it is outstandingly the situation with regard to Government control of the business and financial structure of the United States. As the arsenal of democracy, this country must maintain business as much on a war footing as though we were actually a belligerent. Government controls now, in fact, are greater on the whole than in our real battlefield days of 1917 and 1918.

President Roosevelt's powers are far larger than any President of the United States ever before has had. Leon Henderson has effective jurisdiction over the vital commodity price field, and a general price-ceiling law is in the draft stage. The OPM has a tight grip on production and the Government is empowered now to take over in a twinkling any private plant which it considers is holding up the progress of armament. Financially, our huge program of "defense" bond sales is larger than the single war-bond drives of World War Number 1, proposed taxes are higher and the mechanics of financing an unprecedented \$20,000,000,000-a-year armament are being worked out.

This already virile and thriving war economy is the answer to those who would draw comparisons to what happened when we actually began military activity in 1917. There is intrinsically no basis for comparison; we may warn in fact that, just as many speculators and investors were burned in 1939 and 1940 by applying a pattern of action based on ideal procedure for World War Number 1, so, too, may many miscalculate what will happen on our full entry into the present war. We are therefore not going to draw a parallel of World War Number 1 with World War Number 2 as telling

ACTIVE entry of the United States into World War Number 2 is a far less ominous economic and social development than it sounds. It would mean that the conflict begins while Britain still is powerful, while we still can count on a strong ally and before we have to take our

the story of what might take place with the United States at war; rather do we prefer to analyze existing economic, business and financial trends at hand, as well as draw conclusions from a study of what has happened in two representative countries, Britain and Canada, more particularly the latter, with which a parallel is more logical than in the instance of any other country.

Questions of the disturbed investor with his eye on the start of United States military hostilities are many. Among them are: How will our present defense economy be altered to meet the actual war emergency? What new relationship may result among production, consumption and profits? Which groups will be hardest hit? What changes may take place in values of real property, commodities and money? To what extent will Government regulate industry? In what position will the investor find himself?—and numerous others. In succeeding paragraphs, we cover these points and a wide variety of others related to our direct entry into the war.

Our treatment of this vast subject is divided in this article into three parts, the first dealing with some of the above questions and the economic patterns of Britain



Ewing-Galloway Photo

# Realistic Appraisal of U. S. Economy At War

and Canada as partially revelatory of what we may expect if the United States goes all out to war, the second part dealing with the effect on individual industries and the third part dealing with the situation of the investor and the care of his portfolio.

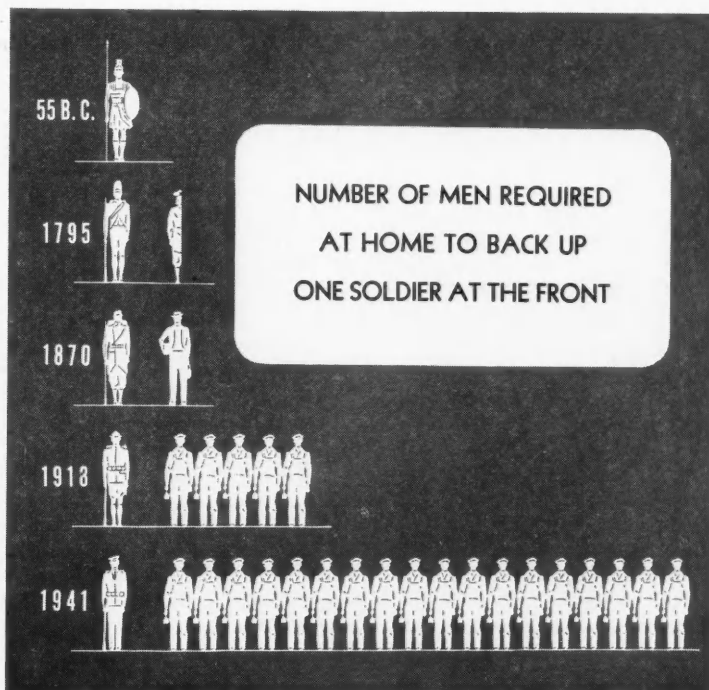
"Defense economy," thoroughly analyzed, is war economy—not only (as previously indicated) as to diplomatic and economic offensive against the Axis powers but also as to our domestic economic and financial setup and the rapid building up of our army and navy. Our "defense economy," then, promises to show no tremendous changes on our becoming an active belligerent, since it is really a war economy and, in actuality, would not be greatly different, this writer believes, even if we had declared war three months ago. Thus, answering some of the preceding questions, war would bring no tremendous change in our current economy, other than a sharp intensification of the existing program. The relationship between production, consumption and profits likewise would not vary enormously from current trends, bringing intensification of the present upward lines of production and consumption (particularly the former) and continued shrinkage of profit margins. Prices of real property and commodities would rise. The individual industries would be affected variously, as explained in detail in Part II.

One of the important differences under actual war would be a stronger tendency toward rising prices. This would reflect emergency emotion which would be inclined to allow speed of turnout to take precedence over all other thought—even prices. Nevertheless, prices under Leon Henderson's regime are certain to be held within reasonable bounds; nothing like the wild uprush of World War Number 1 is in the wind. In the early stages of that war—before our entry—prices moved upward very slowly, just as they are doing in this country in the current war. However, the rise gathered speed in 1916 and 1917, developing a skyrocketing action which was not stopped until two years

after the war, at which time living costs here were more than double the pre-war level.

Let us see for analogy purposes what has happened in Britain and Canada, and then explain why our situation may or may not develop similarly. The war has caused a "blackout" of many statistics readily obtainable formerly from Britain, but there are enough data available from which to make worthwhile conclusions. In the fiscal years (April-March) 1939-40 Britain's total expenditures equaled \$7,268,000,000 (at the current rate of exchange), jumping in the subsequent full-war year 1940-41 to \$15,468,000,000. Of this figure, war-spending comprised the largest part, of course, being at \$12,880,000,000. For 1941-42, total expenditures are estimated at \$16,800,000,000, with armament expenditures likely to reach about \$15,000,000,000.

Taxes have jumped in these years, also, but naturally



COURTESY NAT'L MACHINE TOOL BLDGS. ASSN.

they have not kept pace with the expenditures trend. In the 1939-40 fiscal year (April-March), revenues totaled \$4,196,000,000, rising to \$5,636,000,000 in the 1940-41 fiscal year, and likely to advance to about \$7,150,000,000 in the current fiscal year. The deficit ran to \$3,072,000,000 in 1939-40, \$9,832,000,000 in 1940-41, and is estimated at about an equivalent amount in the present fiscal year. In the war economy, meanwhile, national income gained from \$24,400,000,000 in 1939-40 to \$29,600,000,000 in 1940-41. It may run up to about \$36,000,000,000 this year, and therein lies one of Britain's big fiscal problems, relating as it does to inflation.

Showing how inflation gained headway in Britain, wholesale food prices advanced 60% in the first year and a half of war, in spite of concerted efforts of the British to control them. Cost of living rose over 25% in the same period, creating pressure for widespread wage increases, which resulted finally in the Government's capping this trend through wage ceilings. There is evidence of considerable room for further inflation. Thus, Government expenditures in the 1939-40 fiscal year comprised about 30% of Britain's national income; in 1940-41 they advanced to 52%, and are likely to be not far from 50% in the current fiscal year. For comparative purposes, taxes took 17% of national income in 1939-40, 19% in 1940-41, and may take about 20% of this fiscal year's total national income.

To prevent ruinous price spiraling and keep down the cost of the war, Britain is striving to reduce consumer purchasing power by diverting it into the Treasury; this year's British taxes are the stiffest in the country's history. On individuals, personal exemptions are lowered sharply and the basic income tax rate jumped to 50%. Small incomes are effectively covered; for example, personal exemption of married persons has been cut to \$560 and of single persons to \$320. And, to show how steeply rates run up, a British official has indicated that if a taxpayer has \$20,000 of his income left after taxes, his income would have been \$264,000 for that year.

Not all of these deductions are strictly taxes, however, Britain having softened the tax blow through a system of

deferred credits. Individuals in fact, will receive credit for the major part of the tax increase this year, the advance being in effect an "enforced saving," which is credited to the individual's account in the Post Office Savings Bank and payable after the war ends. This has the double-barreled effect of holding down buying pressure now and providing anti-depression purchasing power after the war. As an example of how this system works, a married man with two children who earns \$1,400 would pay about \$100 in income taxes, instead of the \$22 he paid last year, but he would be credited with about \$70 of it in a savings account. This principle even applies to corporations, which have a tremendous 100% excess profits tax to pay, but are to be credited with 20% of it. Naturally, there are constant drives on in Britain, too, to direct income and savings into Government bonds as part of the program to reduce spendable income and mitigate the situation of more money to spend for fewer goods. Some other of significant British war actions have been drafting of labor and widespread establishment of price ceilings, including even retail price ceilings.

Our own situation in war would differ in several material respects from that of Britain. Primarily, it is important to note that the Administration seems to have no current intention of dipping down into the low income brackets for taxes; rather it actually aims to build sharply further the incomes of these groups, as well as that of the farmer. Neither the Treasury nor the Joint Congressional Committee tax plan indicates any cutting



Checking shell dies at the General Motors Plant



Diesel engines being built by General Motors to power U. S. Navy Vessels.

of the individual income tax base. Our status as to supply of foods and miscellaneous goods at retail, too, differs broadly from Britain's, since we are far better situated, and, in fact, have been supplying Britain in many instances. Such surpluses exist in many lines, that a sustained sharp uptrend would be difficult even if permitted by Administration authorities. Advances in food prices and cost of living in this country have shown but small increases since the war outbreak.

The relative plenty in this country is one of the important differentiating factors between Britain and us. As pointed out above, our political setup with regard to attitude toward income classes differs also, and so, too, is our encouragement of labor union growth and our complete sanctioning of, and indirect pressure for, higher wages different from the British tenets. On prices, we are far ahead of the point the British were at in their steps

toward war; there can be no question of higher prices all around in the event of war, and certainly a substantial increase in the cost of living, but this is unlikely to be anywhere near the proportions of the advances in Britain, considering the comparatively tight controls we have already set up and their effectiveness to date, as demonstrated in the metals trades.

It is thus unlikely, too, that the action of the British stock market during the war can be set up as an example of what we might expect here. Not only is the all-important course of deciding events likely to differ, but the British had the peculiar situation of having to reinvest much of the large funds which arose from purchase by Britain from its subjects of American securities. These securities were "commandeered," of course, with the thought of sale here, thus establishing needed exchange. No such situation, naturally, is in the making here.



**12-ton tanks which are rolling off assembly line of American Car & Foundry.**

In Canada, market action of stocks has been poor, though—as in Britain—high grade bonds have continued to sell near their peak prices and at low interest rates. Taxation is found to be one important reason for this action, while another is the sharp reduction of demand for Canadian agricultural goods. Actually, a depression was suffered last year by Dominion agriculture. Reflecting the strong anti-inflationary policy in Canada, its war budget aims at raising about 75% to 80% of Dominion expenditures—both armament and otherwise—by taxation. And very considerable these are, too, as may be seen from a comparison of Canada's war expenditures in World War Number 1 with World War Number 2. Beginning with 1915, expenditures (years to March 31) ran as follows: \$60,800,000; 1916, \$166,200,000; 1917, \$306,500,000; 1918, \$343,800,000 and 1919, \$446,500,000. They ran in this war as follows (years to March 31): 1940, \$118,300,000; 1941, \$791,900,000. They are estimated for the 1942 fiscal year at \$1,450,000,000—record-breaking. It is noteworthy that these figures do not include \$795,000,000 in 1941 in aid to the United Kingdom and \$900,000,000 estimated aid for the current fiscal year.

An interesting angle on the Canadian situation is that the budget provides \$35,000,000 for bonuses to farmers not to grow wheat—strange for a country at war. Expenditure provisions include \$468,000,000 for non-war purposes, \$1,450,000,000 for Canada's war costs and \$900,000,000 to aid Britain—a total of \$2,818,000,000. To



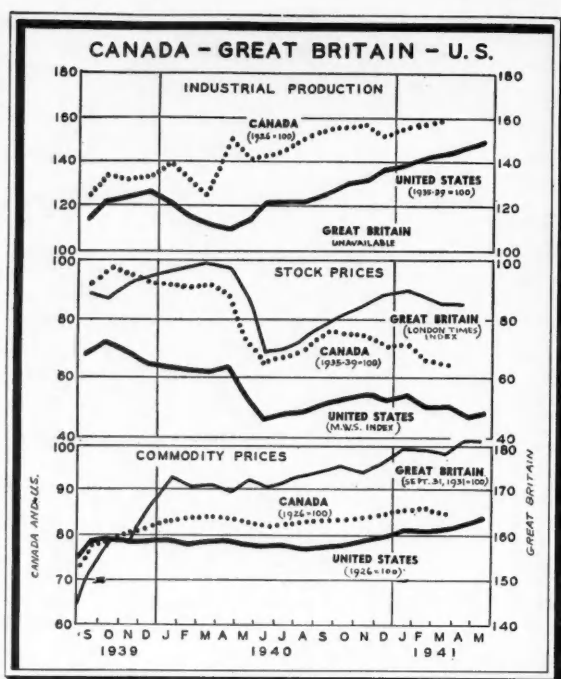
**Aircraft mass production for U. S. Army by the Curtiss Wright Corp. Buffalo plant.**

meet these expenditures fully, the Government plans \$1,150,000,000 from existing taxation, \$250,000,000 from new taxation, \$200,000,000 by borrowing on war savings certificates, non-interest bearing loans and from Government funds, and \$1,218,000,000 from "Victory" loans and other borrowing. Canada in the last war raised 47% of its revenues from taxes; in the past fiscal year (ended March 31, 1941) the country raised 61% of its aggregate budget by taxation. Looking at the budgetary experiences of Britain and Canada, one conclusion certainly is inescapable, and that is: our relatively mild taxes will be very much higher in actual war economy.

Despite unusually stiff taxation, some inflationary trends have crept into the Canadian economy. Wholesale prices in the Dominion have risen 20% since the war outbreak, and cost of living has gained 7.3%. Cost of living, of course, is scheduled to go higher, the difference between the above two percentages being accounted for by the time lag customary between changes in wholesale and retail prices and the less sensitive nature of the latter. Price and wage restrictions, in addition to taxation and promotion of war bonds are being resorted to, also, in the aim to stop inflation—even as much as has taken place in Britain.

The Conciliation Boards, dealing with wage disputes, have instructions to regard the average wage level for the 1926-29 period as "fair and reasonable." From this level, the wages are adjusted at quarterly intervals by the addition of flat-rate bonuses, whenever the official cost of living index shows changes exceeding 5%. Wages in the war industries are some 14% higher than before the war. Canada has a fine imposable on firms found guilty of enticing workers away from other firms engaged in war production. Control over prices of all necessities (including those imported) is vested in the Wartime Prices & Trade Board. A broad variety of Canadian statistics other than the above are carried in a table in this article, and reveal Dominion business and financial patterns since the war outbreak.

Both the Canadian and British experiences are inter-



esting not only as partially indicative of what we may expect when, as and if we go to war, but also as showing how tremendously far advanced we are in an actual war economy. Our controls and Government powers over industry are in some instances greater than Canada's even though we are theoretically still at peace. And, before Congress adjourns they will be still greater, for legislation, such as *actual control of prices* (not mere placement of ceilings on prices) is in the making, and tightening of other controls is developing.

## PART II

Many questions converge on the extent to which the Government would regulate industry with the United States an actual belligerent. The answers in turn arise from the major premise that we have actually been at war—everything but a “shooting” war—since the 1940 proclamation of the draft. War controls are already bristling throughout industry.

What more can be done, assuming war entry? Tighter controls, for one thing. Full price control, for example, rather than the present piece-meal approach. As a matter of fact, price control legislation is being drafted now. The current O P A C S policy is to keep prices flexible but comparatively stable, in constant readjustment one to another. In actual war, it is likely the Administration would turn to legislation to freeze all prices of goods and services as of a certain date and then make specific exemptions sparingly. Absolute power by Government—essentially a dictatorship—would mean clearing the tracks completely for the armament industry, a task well started now.

Aims, even more so than now, would be a completely integrated armament industry, not merely to support our own forces with the arms and implements of war, but also to supply the armed forces of any ally throughout the world. Interesting to note, in its bearing on this subject, is the fact that definite commitments for Government-financed plants—including both those which will be owned by the Government and those which will be owned by private industry but erected with Government help—stand today at approximately \$2,000,000,000. This figure does not include, of course, the huge sums that have been put into plant expansion by private capital.

In any event, active belligerency will mean devotion

## The Canadian Picture Since War Began

	1939				1940												1941	
	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
Indust. Production (Comb. Index) (A)	*128.3	*139.7	*139.0	*138.2	123.8	117.0	115.0	134.0	128.8	132.1	131.9	143.9	148.6	146.4	146.9	140.6	145.1	138.3
Construction (A)...	*48.6	*43.2	*40.3	*61.7	94.9	116.4	116.5	179.6	139.9	157.4	130.2	169.3	223.0	143.4	278.2	187.4	244.3	223.8
Electric Power (A)	*246.0	*245.6	*248.1	*239.2	111.0	109.4	109.0	112.7	123.0	125.1	127.4	119.9	113.1	107.6	109.8	111.2	116.7	115.7
Exports Volume (A)	*112.8	*106.9	*114.3	*123.7	132.4	107.3	120.4	121.4	142.3	154.2	139.3	153.4	135.5	119.3	132.7	119.9	130.5	148.2
Imports (Vol.) (A)	*102.0	*99.7	*102.1	*108.1	128.2	125.5	115.9	129.5	125.8	124.6	130.6	141.4	128.3	148.8	136.0	171.6	171.0	182.7
Employment (Combined Index) (A)	*119.6	*121.7	*123.6	*122.7	....	114.4	113.5	111.9	114.3	120.9	124.7	127.9	131.6	136.2	139.2	139.1	134.2	135.2
Agricultural Marketings (Combined Index) (B)	174.4	96.5	151.1	101.3	101.3	134.8	36.7	60.4	114.7	91.7	131.6	101.8	60.3	52.8	82.0	113.8	116.4	....
Wholesale Prices (B)	78.2	79.3	80.3	81.7	82.6	82.8	83.2	83.1	82.1	81.6	82.4	82.7	83.1	83.3	84.0	84.2	84.6	85.2
Cost of Living (A)	*82.9	*84.7	*85.0	*85.3	103.8	103.8	104.6	104.6	104.9	104.9	105.6	105.9	106.4	107.0	107.8	108.0	108.3	109.2
Carloadings (A)...	*95.6	*80.0	*84.0	*82.6	113.4	108.8	96.0	110.7	117.1	114.9	126.8	120.0	107.2	108.8	114.8	125.1	123.3	118.8
Steel Ingot Production (Thous. of long tons; incl. castings).....	124	150	147	150	166	140	157	153	174	166	170	172	165	185	176	185	186	173

Source: Bureau of Foreign and Domestic Commerce.

\* Figures later than 1939 are revised and are not comparable to 1939 figures, which are included merely to give the complete picture and as an indicator of trend in 1939. Complete revised figures for 1939 will be available later and will be usable for comparison with 1940 and 1941. (A) For 1940 and 1941, 100 equals average for 1935-39. (B) 1926 equals 100 for all years.

of a very much greater part of our total productive capacity to the output of military goods. Obviously, this means getting at least a part of increased military production out of facilities which formerly were used to produce goods for civilian consumption. It would mean further encroachment on such "war casualty" industries as automobiles, aluminum goods of all sorts, refrigerators, washing machines, light electrical equipment, metal containers, general household equipment and related lines. Durable goods industries and any civilian trades which might compete with the war program would be squeezed out of their usual channels.

Necessity of complete control by Government becomes evident in the following comments by the thoroughly experienced Bernard Baruch (from Harvard Business Review): "There is a . . . delicate timing problem after the priorities system has been launched, which must be dealt with carefully to attain the maximum possible synchronization of all elements of the Nation's industry. Perhaps this may be made clearer by a specific example. An airplane ready for fighting is made up of a number of component parts, wings, body, motor, gasoline tanks, radio equipment, guns, ammunition, bombs or torpedoes, armor plate, and so forth. It is useless to accelerate the production of these parts unless all are expedited in the same fashion, so that all are ready for assembly at one time. If the wings, fuselage and gasoline tanks are rushed through the factories only to have to wait until engines can be attached the whole system in this case has been useless in speeding up the completion of the finished instrument of war. The priorities administration, therefore, must make special efforts to attain synchronization of the manufacture of all parts of each essential armament."

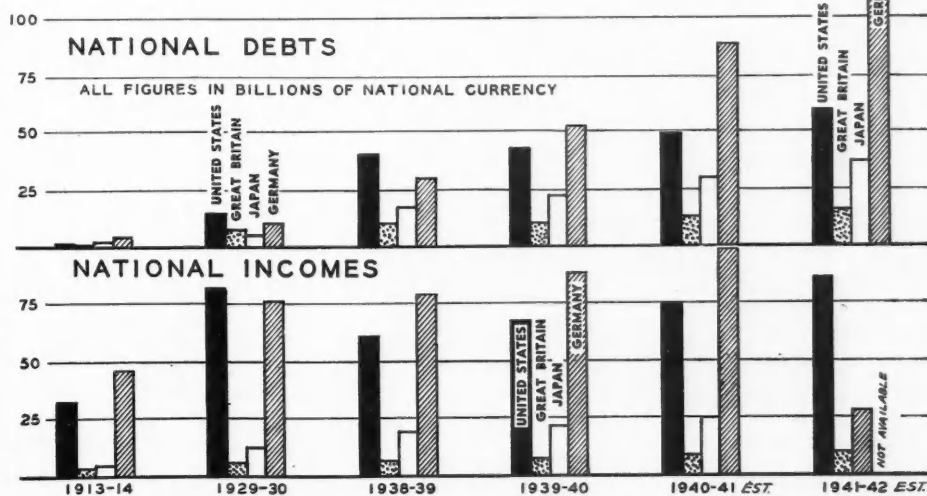
Aside from the increased casualties likely to arise from active war (to be gone into more fully in Part III of this article), there is a companion movement which must be considered. This is the much-mangled inflation subject. While the nation's capacity to turn out goods for consumers is cramped, we are also getting a vast increase in consumer spending. The other side of heavy expenditures on rearmament is a rise in the national income. More and more people have money to spend on consumer goods without a comparable increase in the supply of goods they want to buy, a perfect setup for price inflation. The Administration is convinced that, although inflation is ruinous in a post-war period, it is more paralyzing to production when it is occurring. World War Number 1 experience shows that failure to increase production for a period resulted from the demoralization of spiraling, inflationary prices.

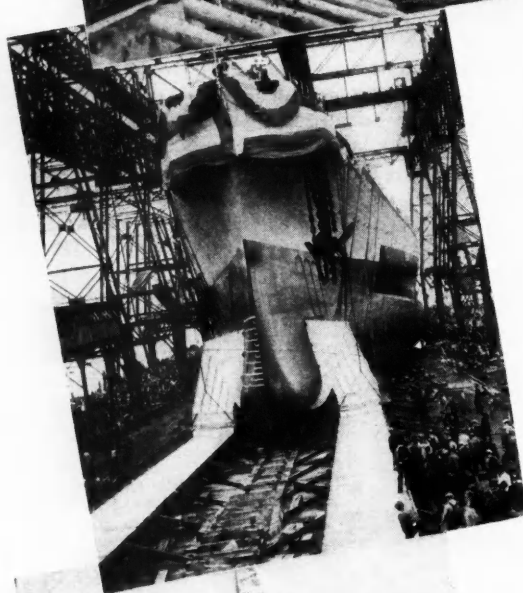
In the past year, the United States had the greatest rise on record in production, but wholesale prices went up only 5% while production was rising about 27%. The official cost of living index went up only about 2%. But this restraint was due to a number of reasons. First, we had a surplus of men, money and machinery. Then, business men recognized generally that rising prices interfere with production, while the Government got to work early to resist price rises. In war, of course, the problem of maintaining price stability would be much more difficult. Demands for raw material, supplies, labor, shipping, power, railroad transportation—all would be intensified. The World War record will be used as an example of economic happenings which must be prevented.

As matters actually worked in the World War, there was at first little information available as to the extent to which productive facilities were being used, and minor effort was made to hold prices down. The attitude then—and it persisted until most of the harm had been done—was to let buyers bid for goods and run prices up in the hope of thus getting greater output. Belatedly, price controls were imposed during World War days, but not in time to stop a price rise which by 1920 had more than doubled the 1914 level. Cost of living soared, cost of armaments to the Government skyrocketed and businessmen were harassed by constantly changing prices.

Leaving aside the thought of general business competition for fewer goods, let us examine the consumer income and corporation tax situations for inflationary possibilities. National income is expected to rise in this country in 1941 to around \$84,000,000,000, a gain of about \$8,000,000,000 over that of 1940. Increased taxes were originally scheduled to raise about \$3,500,000,000 additional revenues for the Government this year, but this figure may be increased substantially further. Taking, for the sake of argument, the extreme figure of \$5,000,000,000, this still would leave an estimated \$3,000,000,000 added income over that of 1940. Important to consider in this connection, too, is the belief that the individual class which will be hit most by increased taxes is the very group which (Please turn to page 211)

## HOW THE BIG FOUR COMPARE





Wide World Photos

Top—New destroyer launched at Bath, Me.  
Middle—The new 35,000-ton U. S. S. Washington.  
Bottom—A tanker being launched at Bethlehem Steel yards.

## Shipbuilding In New Age

**Combined Naval and Commercial Shipbuilding Program Totals \$10,000,000,000; Navy Shipbuilders Face Capacity Activity Till 1947**

BY WARD GATES

THE future of democracy hinges as never before on a few great American industries, one of the most important of which is shipbuilding. Back once again in the high prosperity period of its lengthy major cycle, domestic shipbuilding is headed for a production peak unprecedented in history. Our naval building program, as now constituted, involves \$8,000,000,000 (including construction of new facilities), far overshadowing our World War production. But it is not only destroyers, battleships and submarines we want. It is also merchant tonnage—great amounts of it, both for Britain and ourselves.

Crying need for new merchant ships is highlighted by the facts of sea losses, graphically displayed in a chart accompanying this article. During the war to date, the world has lost about half as much merchant shipping as was sunk during the entire 51 months of the World War. It is possible, in fact, that British, Allied and neutral shipping losses this year alone may run between 3,500,000 and 5,500,000 tons, compared with replacement capacity of British and American yards of little more than 2,200,000 tons of ocean-going merchant ships. This does not of itself appear catastrophic, compared with Great Britain's gross merchant fleet tonnage of around 22,000,000 and our gross tonnage of about 7,000,000 (not counting about 2,300,000 tons of Great Lakes ships), but the trend (as shown in the chart) definitely is alarming.

Considering these facts, it is small wonder that our efforts in recent months to increase the supply of cargo ships has been even more frantic than the building of naval vessels. The commercial ship program, now

involving about \$2,000,000,000, compares with about \$434,000,000 of such work in the hands of private builders at the beginning of this year. Naval work at that time totaled \$3,095,000,000 (private), but to this aggregate must be added the \$1,500,000,000 work that was in progress in Government yards. Combined, the two newly enlarged programs now represent a \$10,000,000,000 effort. The much more complicated naval units will take a smaller tonnage than the easier-to-construct merchant ships. Immensity of the naval-ship program of over 2,500,000 tons is realized in a comparison with our World War turnout, embracing 770,000 tons of men-of-war, produced in a 72 months' period.

While our naval program thus is relatively enormous, our merchant shipbuilding program is substantially short of the World War schedule. The World War boom was late in getting under way, however; most of it actually developed after the war and, to some extent, replaced vessels lost during the conflict. Revealing the trend, our gross merchant tonnage as of July 1, 1916, aggregated 8,470,000 tons, increasing slightly to 8,871,000 tons in 1917, 9,925,000 tons in 1918, 12,907,000 tons in 1919, 16,324,000 tons in 1920 and 17,026,000 in 1921, all tonnages being as of July 1 in respective years.

Following the replacement of vessels lost in war, the shipbuilding industry lapsed into comparative inactivity, but the Merchant Marine program took a new lease on life in the Maritime Commission's "50-ships-a-year" program started in 1938. In that year we turned out a merchant vessel tonnage of 201,000, which was advanced to 335,000 in 1939 and substantially further last year, on its way to a million-tonnage or higher output this year. Producing merchant ships in this war is a more difficult matter than it was in the World War, for a much greater percentage of our facilities are engaged in naval turnout, while many of the plants (particularly for wooden ships) have passed permanently out of the picture.

Among the most famous of plants no longer available is the Government's own yard at Hog Island, since converted into an airport. Though these facilities turned out only one ship before the signing of the armistice, they subsequently produced 125 vessels in less than two years. New "Hog Islands" are in process of construction, and as far as our Government and Britain are concerned, cannot be built soon enough. Similarly, facilities for producing naval ships will be jumped sharply. Figures of the National Council of American Shipbuilders indicate that a year ago there were 83 building ways of 300 feet or more in length in private yards on the Pacific, Gulf and Atlantic coasts, and 37 which could be made usable in a short time. Now there are 234 building ways available or under construction, with about 100 more in the planning stage.

The United States at the beginning of 1940 had 21 shipyards working on large vessels, of which 7 were building naval units. A year later we had 34 shipyards building large vessels, of which 21 were building naval vessels. This year's capacity will take another big jump, with the spreading of shipbuilding on a large

scale to Great Lakes yards. Heavy ships, of course, are out of the question for Great Lakes builders, but lighter types can be produced and will be delivered through the Welland Canal and down the St. Lawrence or to sea by way of the Illinois Drainage Canal and the Mississippi River.

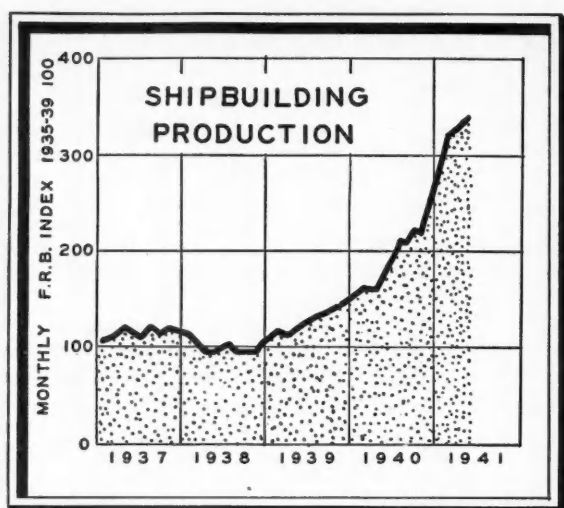
### Production Possibilities on Great Lakes

Possibilities of these yards are considerable, as may be seen from the World War record. Deliveries from Great Lakes yards between 1917 and 1921 aggregated 479 vessels of 1,625,000 deadweight tons, of which 430 of 1,612,500 deadweight tons were steel carriers extending from 3,200 to 4,000 deadweight tons. The entire War program of completions amounted to 2,281 ships of 13,392,421 tons. Among these Great Lakes builders, seven companies contributed practically all the tonnage, with the American Shipbuilding Co. in the lead. This company, with its 6 plants, turned out 209 ships of 808,100 deadweight tons. Number of ships turned out was greater than those of any other American yard, but aggregate tonnage was smaller than that of the Government's Hog Island plant, which produced larger ships. One of the potentialities being discussed for Great Lakes yards is the building of "ugly duckling" freighters (emergency ships of simplified construction) of 10,000 deadweight tons. It is possible that arrangements may be considered to construct only the hull in Great Lakes yards, and towing that to New Orleans, where machinery and superstructure would be added. In any event, smaller craft in large quantity will be coming off Great Lakes ways before long.

Some of the emergency ships represent an engineering throwback in design, but finicky details in the current emergency naturally must be tossed to the winds and speed brought to the forefront. Earlier this year, we contracted to make 60 "ugly ducklings" for the British; at the same time, it was announced that 200 extra ships would be built for our Maritime Commission. That brought the construction schedule up to over 450 non-military ships. Obviously, however, at the rate that sinkings of British ships are developing, and the huge projected program of aid to Britain, great additions to our Merchant Marine are necessary. This is emphasized

### Approximate Backlogs of Leading Shipbuilding Companies

Name of Company	Approx. Value of Backlog	Name of Company	Approx. Value of Backlog
Beth Iron Works.....	\$175,000,000	Lake Washington Shipbuilders.....	\$50,000,000
Bethlehem Steel.....	1,000,000,000	Los Angeles Shipbuilding.....	45,000,000
(Shipbuilding subsidiaries)		Manitowoc Shipbuilding.....	30,000,000
Consolidated Steel Corp. (Ltd.)....	95,000,000	Moore Drydock.....	47,000,000
Camp Shipbuilding.....	125,000,000	Newport News Shipbuilding.....	300,000,000
Electric Boat.....	130,000,000	New York Shipbuilding.....	600,000,000
Federal Shipbuilding.....	375,000,000	Sun Shipbuilding.....	120,000,000
(Subs. of U. S. Steel)		(Subs. of Sun Oil Co.)	
Ingalls Shipbuilding.....	100,000,000		
<b>U. S. Navy Yards</b>			
Boston.....	\$170,000,000	Norfolk.....	\$125,000,000
Brooklyn.....	150,000,000	Philadelphia.....	225,000,000
Charleston.....	90,000,000	Portsmouth.....	70,000,000
Mare Island.....	85,000,000	Puget Sound.....	95,000,000



in the previously mentioned comparison of our existing merchant fleet of not much over 7,000,000 tons (exclusive of the relatively small Great Lakes tonnage), compared with almost 10,000,000 in 1918 and over 17,000,000 in 1921.

Added recognition of our needs was made in the announcement a few days ago that a still greater program for the merchant fleet is in the making, with an objective of at least a 5,000,000 tonnage annual production by 1943. Current plans (not including the new additions) point to a peak of about 280,000 tons deadweight per month, to be reached by August, 1942. This year's turn-out probably will top 1,000,000 tons, and next year's may approximate 4,000,000 tons. One of the big beneficiaries of the Maritime Commission's expansion of the emergency shipbuilding program would be Bethlehem Steel Corp., though naturally the new assignments could be spread to get the quickest possible results. Some of the greatest orders in the shipbuilding industry, however, are held by the shipbuilding subsidiaries of large corporations, including Bethlehem Steel, U. S. Steel and Sun Oil Co.

One of the largest recent maritime orders, in fact, was received by the Sun Shipbuilding & Dry Dock Co., a subsidiary of Sun Oil Co. This covers 72 tankers, with a gross deadweight tonnage of 16,000 each. Among other big orders are 62 cargo vessels of 6,800 tons each by Bethlehem-Fairfield (subsidiary of the Bethlehem Steel Co.), 55 cargo vessels of 6,800 tons each by California Shipbuilding, 43 cargo vessels of 6,800 tons each by Oregon Shipbuilding, 37 cargo vessels of 6,800 tons each by Houston Shipbuilding, 37 similar vessels by North Carolina Shipbuilding, 30 similar vessels by Todd-Bath Iron, 30 more by Todd-California, 25 more by Delta Shipbuilding, 24 more by Richmond Shipbuilding, 17 cargo vessels of 7,400 tons each by Federal Shipbuilding (subsidiary of U. S. Steel), and 13 tankers of 11,400 tons each by Sun Shipbuilding,

Bath Iron Works, expert builder of destroyers, also is pitching in to help out the Merchant Marine. With Todd Shipyards it has considerable joint business, while it also has commercial work entirely its own, including 4 cargo vessels of 6,200 tons each.

In the naval ship field, expansion of which began earlier and on a much greater scale than in the commercial field, contracts held by shipbuilders are colossal and trending still higher. Thus, at the beginning of the year, Bath Iron Works had orders for 23 destroyers of 2,100 tons each, two at 1,700 tons each and two of undesignated tonnage. Bethlehem Steel's enormous contracts included one 35,000 ton battleship, eight 13,000 ton heavy cruisers, four 26,500 ton airplane carriers, six 10,000 ton cruisers, two light cruisers of undesignated tonnage and four destroyers of 1,630 tons each. These orders were for its great Quincy plant. Its Staten Island division had orders for 12 destroyers, its San Pedro division 10 destroyers, and its San Francisco division four cruisers of 6,000 tons each and 25 destroyers.

Federal Shipbuilding (U. S. Steel's subsidiary) had substantial orders at the beginning of the year, including three cruisers of 10,000 tons each, 13 destroyers of 2,100 tons each and 22 destroyers of 1,630 tons each. The submarine specialist, Electric Boat, had orders for 44 of the underwater craft, with tonnage of 1,525 each and for 37 sub. chasers and motor-torpedo boats. New York Shipbuilding, maker of large ships, had (as in the instance of Bethlehem Steel) an order for one 35,000 ton battleship, 13 cruisers of 10,000 tons each, one seaplane tender of 8,350 tons, six heavy cruisers of undesignated tonnage and one repair ship. Newport News Shipbuilding was the third company in the selective class with facilities to build a battleship, having an order for one at 35,000 tons—the same as Bethlehem Steel and New York Shipbuilding. The company also had a whopping big order for eight airplane carriers of 26,500 tons each and four light cruisers of 10,000 tons each.

Among other corporations with stock traded on a New York exchange may be mentioned Consolidated Steel, with orders at that time for 12 destroyers of 2,100 tons each. The company also is represented in the commercial field, having had orders at the beginning of this year for four cargo vessels of 6,400 tons each and two 6,400 ton cargo-passenger ships. A tremendous amount

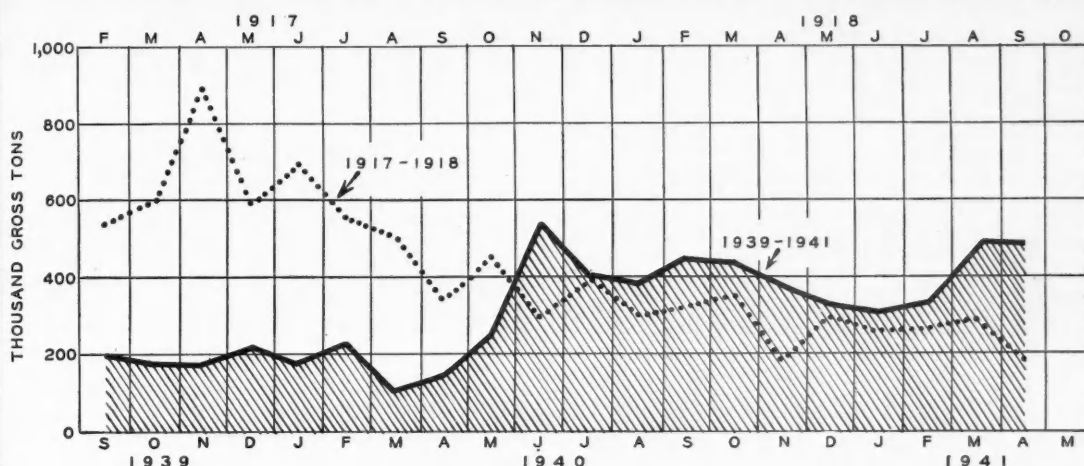
## Shipbuilding Growth Since 1929

(Backlogs at Start of Year)

Year	Commercial	Naval	Total
1941	\$433,000,000	\$3,095,000,000	\$3,528,000,000
1940	267,000,000	294,000,000	561,000,000
1939	137,000,000	255,000,000	392,000,000
1938	51,000,000	113,000,000	164,000,000
1937	50,000,000	119,000,000	169,000,000
1936	14,000,000	165,000,000	179,000,000
1935	1,000,000	118,000,000	119,000,000
1934	7,000,000	140,000,000	147,000,000
1933	5,000,000	24,000,000	29,000,000
1932	32,000,000	26,000,000	58,000,000
1931	65,000,000	25,000,000	90,000,000
1930	90,000,000	30,000,000	120,000,000
1929	90,000,000	30,000,000	50,000,000

Source: National Council of American Shipbuilders.  
Note: This year's changes as now contemplated bring aggregate Naval and Merchant Marine programs to about \$10,000,000,000.

## BRITISH, ALLIED AND NEUTRAL MERCHANT MARINE LOSSES



of the work of expanding our Navy is being done, of course, in Government yards, as may be judged from the fact that the Philadelphia Navy Yard as of January 1, 1941, had orders for six battleships, the Brooklyn Navy Yard five battleships, the Norfolk Navy Yard three battleships, the Mare Island Yard eight submarines, the Portsmouth Yard 14 submarines, the Boston Yard 21 destroyers, the Charleston Yard 15 destroyers and the Puget Sound Yard 9 destroyers. A large number of private yards with huge contracts, both for naval and commercial vessels were not mentioned in this and the preceding paragraph, because their stock ownership is private and stock-market interest, therefore, is small. Elsewhere we refer to a few for comparative purposes.

The naval shipbuilding program, with its more than 450 units and its likely dollar involvement of around \$8,000,000,000 (including plant expansions) may not be completed before 1947, four years after the current Merchant Marine program is scheduled to be fulfilled. Need for protection of merchant ships is growing rapidly; there is little point in sending unprotected ships with cargo which will almost automatically be sunk. In any event, there has been a complete revolution of the shipbuilding industry, since war began, following the tying up of Scandinavian shipping and the British blockade. American ship owners have had to furnish vessels for the British, to find alternative routes for ships as war complications grew, provide the Army and Navy needs and have tonnage ready under priority demands for national defense cargo.

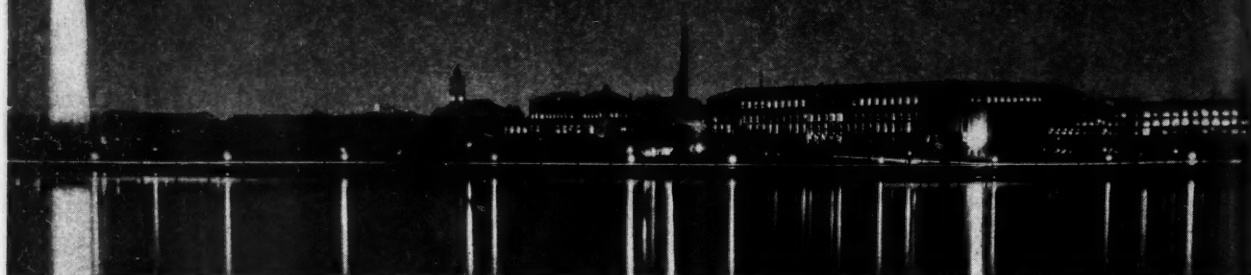
Britain now has very few vessels outside of war duty, and the British Merchant Marine is decidedly no longer a competitor for the world's sea-borne freight. To Africa, to India and the Far East our ships have labored to bring us supplies for our war effort, as well as to carry on normal business. But, the shipping business is likely to become less and less normal, as evidenced by White House orders for a 2,000,000-ton shipping pool for aid to the democracies. By routing American ships to British supply lanes outside the war zone, the Maritime Com-

mission will make it possible for the British to concentrate their own Merchant Marine in direct supply lanes from Canada and the U. S. to Britain. Under arrangements now being worked out, many of the ships which sail from the United States with British-aid cargoes will come back with defense and civilian freight from Africa and the Far East.

Some of the ships which will be pooled already are carrying British cargoes, while others have been preparing to sail to the Red Sea, in line with President Roosevelt's recent clearing order. To further the development of the Maritime Commission's Red Sea Fleet, our intercoastal lines will be sharply cut. During the next two months, about 40 vessels are scheduled to be taken, which will mean, of course, heavy curtailment in this service—to the benefit of railroads and trucking. In the interest of efficiency, the remaining 50 intercoastal vessels may be placed in a coastal shipping pool. Further heavy supplies of ships for more or less immediate duty will be available under the new Bland ship-requisitioning which will permit releasing of about 82 foreign vessels for the various uses the Maritime Commission may schedule for them. One method put forward as a way of paying for these vessels is to deduct their value from debts owed to the United States.

Shipping companies are having their biggest period of prosperity since World War days, reflecting in great measure the numerous sales of vessels at favorable prices. American Export Lines and American-Hawaiian Steamship are among the best-situated shipping companies, although we consider the entire shipping group as too speculative for long term retention. Somewhat less speculative are the shipbuilders, with their colossal schedules awaiting fulfillment. Among the best situated in this group are Bath Iron Works and New York Shipbuilding. We take occasion to stress that no commitments be made in this group or any other group, unless such action jibes with the general investment advice, as given in each issue in A. T. Miller's market analytical article.

# Happening in Washington



Charles Phelps Cushing Photo.

BY E. K. T.

**Defense reorganization** may be forced by Congress eventually because of dissatisfaction with having everything based on executive orders and personnel responsible only to the President. Argument is that effective work cannot be expected from an organization subject to constant change. But because of this condition, defense officials are not in a position to advocate Congressional action, even though they would like to have their set-up a little less ephemeral.

**Labor regulation** is again coming to the fore in Congress, and will stay there unless the administration finds some way to stop strikes on defense projects. For a couple of weeks it looked as though the strike situation

had quieted down and officials began to brag a little, but things got bad again and appeared to be getting worse. West coast shipbuilding labor stabilization agreement was hailed as ending all labor troubles and a model for all industry, but the ink was hardly dry before a bad strike was called, which made O P M labor division and defense mediation board look silly, to say the least.

**Wage regulation** is being whispered as possible anti-inflation measure, but nobody in Washington dares talk out loud about it. Many unions are going out for very substantial wage increases, which certainly would boost the cost of living to others. Economists agree that wage control is part of inflation control, but politicians don't see it that way even though they may be concerned over the trend.

**Food price increases** in recent weeks have been blamed on the lend-lease act, but fact is buying for Britain so far has not had that effect. Much of price rise is due to administration policy of using British purchases deliberately to raise prices to farmers on the ground that this will stimulate production and with half a promise to peg prices at the new levels and not let them go higher. But new farm legislation, plus other plans of the farm lobby, will inevitably force food prices still higher.

**Food for European** peoples under Nazi control will not be approved by the Administration, at least to any material extent. Regardless of sympathy and humane feelings, the official attitude is that lack of food in Europe may cost Germany the war, and any food to occupied areas would help Germany indirectly.

**Metals production** capacity will be increased largely by Government plants, particularly aluminum. Several metal industries feel that further increases in capacity would have no value after the emergency, so the Government might as well hold the bag itself. Steel is different, and the steel industry is making every effort to avoid pressure for a Government-owned plant. To date these efforts have been successful, but certain officials

## WASHINGTON SEES:

A little less likelihood that U. S. will be in actual war this summer. Preparation continues feverishly and Administration spokesmen make increasingly bold fighting talk, but the actual plunge appears to be a little farther ahead than it did a couple of weeks ago.

Reasons: a rather general realization that more time is needed to swing public sentiment to a readiness for war, to perfect Government defense administration machinery, to get more armament off the production lines, and to let the battle lines in Europe, Africa, Asia or wherever, settle down so that plan of strategy could be developed in which U. S. military aid could be effective.

The official position is still to give all aid to England short of war, but not short of risk of involvement. But the general belief in Washington is that we can't walk this tight-rope indefinitely. So public sentiment and everything else is being prepared to enter the war whenever it may be impossible to stay out longer. This time MAY come soon, but most prognosticators think it will be a long war and our time for entry will not come for quite a while.

are still trying to get the Government into the steel business.

**Telegraph merger** won't come along for years in spite of FCC scare attempt to rush it. Military men oppose action at this time, and a lot of politics and pressure groups are involved. Even if Congress should enact permissive legislation now, a merger could not be made effective for four or five years.

**Skilled labor** is now admitted to be a serious defense bottleneck, and many plans are afoot to meet the problem. Selective Service system will be revised to avoid drafting men useful in industry. Employers are being told not to feel that patriotism requires them to refrain from asking deferment for needed workers. Vocational training is being expanded, but maximum effort is being placed on inducing manufacturers to revise production methods so that untrained men can be taught sufficient simplified skills to operate efficiently in mass production. A major trend in this direction might reduce the importance of some highly skilled trades after the war.

**Farming-out** defense contracts is the universally approved method of getting more production and utilizing the labor supply, but officials are scrapping on how to do it. O P M wants to assure contractors of more and bigger future orders and put price and priority incentives or penalty clauses in contracts, but Army and Navy don't want to make commitments and fear higher prices and poorer quality. Sub-contracting is spreading, but not fast enough, though small companies are learning how to go after contracts and get them.

**'Round-the-clock** factory operation is being urged by O P M but the Administration is not ready to make any inducements such as cutting down overtime payments. Not only is overtime beyond 40 hours staunchly defended, but Sidney Hillman is advocating a system of four rotating 40-hour shifts with overtime plus double time for Sundays but the extra money divided among all workers. Employers see no gain for them in that, and the weekly change in each shift's working hours might impair efficiency.

**Government radio** programs are increasing. Agriculture has been on since the beginning of broadcasting, and Interior and other departments have made network forays, but now Texaco gives Treasury an hour hook-up for 13 summer weeks for advertising defense bonds. The staid Treasury is now scrambling for script-writers, gagmen and sound effects, and the public will have a chance to see how a Government program stacks up with the big time network shows. And, by no means is the Administration displeased with this course of events.

**Price control** legislation, due soon, will be in sweeping terms, probably unconstitutional by pre-New Deal standards, but few worry much now about limits on Federal power. But its bark will be worse than its bite—at first. Much depends on the way it is administered, and present disposition is to make examples of a few "bad boys," hoping that other prices will keep in line voluntarily and that enforcement can be kept to a minimum. Officials admit a detailed price regulation machinery would be too cumbersome to work right.

**Oil anti-trust** case negotiations for a consent decree are bogging down and Department of Justice is preparing to go to trial on cases which would virtually disintegrate major companies. Settlement talk started hopefully three months ago and the parties seem to be farther apart now than when they started. Also, Congress will start hearings soon on bills to break up major companies. At the same time O P M is urging the oil industry to make heavy new investments in pipelines and storage facilities which other branches of the Government threaten to make it illegal for the big companies to own.



*Aluminum Co. of America*

**Little aluminum for civilians, not enough for defense needs—but new plants, Federal and private, will belch out a flood of it in 1942.**

**Pipeline construction** will be speeded under bill urged by Roosevelt because of threatened oil shortage in the East as result of diversion of tankers to Britain. Sufficient lines could be built by winter to relieve the situation considerably, but this involves cooperation between major companies which already face anti-trust prosecution for similar actions. Bill contains a "joker" permitting Government to build and own pipelines, recalling that some Navy officers think the Navy should own its fuel supply facilities.

**Price punishment** is method now being used by Leon Henderson to scare off what he considers unwarranted price increases. Example is announcement that ceiling on cotton yarn prices would be set 'way below current quotations. Objectives are (a) to prevent industries from running prices up in expectation that any general freezing order would take top quotations, and (b) to sock hoarders and speculators, who have been the object of other Henderson orders. But O P A C S is having increasing difficulty separating speculation from actual cost increases.

**Installment credit** curtailment will not be pushed at present. Trial balloons sent up did not meet favorable winds. Federal Reserve would like the power but won't fight for it. Credit control would be less effective curb on consumer buying than priorities and shortages. But the talk has had the effect of tipping off banks and finance companies to watch trends and be ready to tighten up. Thus it is likely that no down payments will gradually fade out. (Please turn to page 216)



Ewing Galloway

## Measuring Relative Equity Values

**Many Price-Earnings Ratios Are  
Low Even in Terms of Normal  
Peace Time Profits**

BY J. S. WILLIAMS

**D**RIFTING in a becalmed market, it is only too obvious that the great majority of common stocks are suffering from a lack of direction and the inability of the investing public to orient themselves. Overhead are the bright skies of record-breaking business activity and good corporate earnings; on the horizon are the foreboding clouds of war, higher taxes, rising costs; ahead the rip tides of priorities and price-fixing.

Assailed by doubts and indecision, wariness on the part of the investor is readily understandable. At the same time there is ample precedent for the contention that in the past when the outlook seemed most hopeless, and investment bargains were going begging, that the greatest opportunities for profitable investment existed.

The difficulty, however, lies in recognizing these opportunities—opportunities which time alone will confirm or repudiate. Certainly there is no adequate basis for presuming that common stocks acquired at this time, even with the exercise of consummate care in their selection, will not at some later date be available at lower prices. It is only necessary to realize the extent to which many of the orthodox principles normally governing the selection of common stocks have of necessity been modified and altered since September 1, 1939, in order to appreciate the difficulties which beset the appraisal of common stocks in a war setting.

There is no denying that prevailing quotations of many common stocks set a very low value on recent or war-time earnings—when measured by peace-time yardsticks, a device which in many instances could be disastrously unreliable. To a more or less degree, current stock values recognize the uncertainties and the rapidly shifting conditions with which all industry must cope today. At the same time it is fallacious to contend that common stock prices have “discounted” this or that adversity or unfavorable development. This is rarely true and was never less true than at the present time. War is never conventional. Neither does it follow any set pattern. The unknown and surprise factors are the essence of war.

Actually, therefore, what common stock prices “discount” at the present time are really the *known* elements—elements which must be pretty obvious to everyone. Possibly these include even the active entry of the United States in the war. Possibly also the next three months will see many of the doubts now prevalent resolved into concrete knowledge. In the final analysis, however, these and other possibilities must be evaluated in terms of their speculative force. What we are seeking to do in this discussion is to determine a reasonably reliable focal point upon which the investor in common stocks may take a bearing.

It might be well to emphasize that no attempt is being made here to select investment bargains as such, but to

measure *relative* investment values. If one can be reasonably certain that a particular stock offers substantial value received at prevailing quotations, one can also be reasonably certain that such an issue has at least an even chance of withstanding all but temporary assaults upon stock prices as a whole. Real values may not mean much when prices are under severe liquidating pressure, but in the long run real values will be asserted. In 1932, at the depths of the depression and when gloom hung heavy over business and the stock market, a sizable list of common stocks sold below what they were worth in terms of their net quick asset value. But when the market turned upward in 1933 most of these same stocks were well in the van. But in the latter year it was the liquor stocks which captured speculative fancy; fantastic earnings were being computed on these issues and to many speculators and, sad to relate, investors as well, they looked like a one-way proposition to riches. The stock market glory of the liquor stocks was short lived and when the reckoning was toted up the investor who had based his decisions on values, rather than speculative ballyhoo, had many subsequent occasions to congratulate himself.

### Bargains in War Stocks?

This is not to imply that history will repeat itself in the case of "war" stocks as such. It is quite possible that many of the war stocks may, for one reason or another, be successful in retaining a good share of the war-time earnings under peace-time conditions, but many companies are now showing earnings far in excess of anything which they have been able to demonstrate under more normal conditions. War and defense business is contributing the major share of such earnings. Without such business the showing of these companies would be unimpressive.

It is when one compares the extremely low market appraisal given to earnings on typical war stocks with price-earnings ratio of many issues of companies outside the direct influence of defense business, that the impression is given that exceptional common stock earning power is available at a rare "bargain."

For example, Bethlehem Steel has recently been selling at only about five times 1940 earnings. Bethlehem Steel, the second largest steel manufacturer, with over \$1,300,000,000 in unfilled orders on its books is a full-fledged war baby. Earnings last year were in excess of \$14 a share on the common stock and dividends totaling \$5 a share were paid. This background is available to the investor at \$70 a share. Certainly, this looks like a genuine bargain. But, to borrow a phrase from an illustrious politician, let's look at the record.

In the five years 1935-1939, Bethlehem Steel showed average annual earnings on its common stock of \$2.81 a share. At \$70 a share this would be

equal to nearly 25 times the company's average earnings in five pre-war years. This latter period, moreover, is something more than an arbitrary one; in fact it might be said to come pretty close to representing a typical span in the short term business cycle. For Bethlehem it included two depression years—1935 and 1938, two relatively good years—1937 and 1939, and one in-between year, 1936.

Even so if Bethlehem might be expected to have only two or three years comparable to 1940, the shares might represent good *speculative* value, and this still may be true. But it must certainly be obvious to everyone that the company's present volume of business is grossly abnormal and subject at some point along the line to rapid deterioration. The end of the present war may not be in sight, but it will end some day. What the post-war status of a typical "prince and pauper" company such as Bethlehem Steel will be is at best extremely conjectural.

Further exemplifying the point brought out in connection with Bethlehem Steel are such companies as Crucible Steel with its common shares quoted less than four times last year's earnings but more than 172 times the average earnings for the five pre-war years; Douglas Aircraft shares currently quoted at less than four times last year's earnings but nearly 23 times the five-year average; U. S. Steel 5.8 times and 41.9 times respectively. The accompanying tabulation reveals other similar variations.

On the other side of the picture, the variations are almost equally pronounced. General Motor shares, for example, representing an equity in the leading automobile manufacturer and one of the world's largest industrial organizations, are selling at less than nine times last year's earnings and only about 9.6 times the average

### Comparison of Representative Price-Earnings Ratios

Company	Dividend 1940	5-Year Earnings per Share					Avge. for 5 Years	Current Price-Earnings Ratio 5-Yr. Avg. %	Current Price-Earnings Ratio per Share 1940 %
		1935	1936	1937	1938	1939			
American Can. . . .	4.00	5.83	5.80	6.08	4.35	6.22	5.65	14.0	5.88
Amer. Smelting. . . .	2.75	5.01	6.85	6.54	3.24	4.36	5.20	7.5	4.21
Amer. Tobacco "B" . .	5.00	4.57	3.70	5.04	4.89	5.12	4.66	13.9	5.59
Anaconda. . . . .	2.00	1.29	1.93	3.62	1.10	2.33	2.03	12.3	4.04
Bendix Aviation. . . .	2.50	1.51	1.44	1.07	0.07	2.14	1.25	27.2	4.44
Bethlehem Steel. . . .	5.00	d0.70	2.09	7.64	d0.70	5.75	2.81	24.9	14.04
Borden. . . . .	1.40	1.10	1.80	1.43	1.51	1.81	1.53	12.4	1.72
Bristol-Myers. . . . .	2.55	3.25	3.31	3.21	3.25	3.49	3.50	11.2	3.73
Bullard. . . . .	2.00	1.07	2.51	3.19	d0.08	1.04	1.55	16.1	6.15
Caterpillar Tractor. . .	2.00	3.16	4.92	5.24	1.41	2.89	3.52	11.7	4.16
Chrysler. . . . .	5.50	8.07	14.25	11.66	4.32	8.47	9.35	6.2	8.69
Cluett Peabody. . . . .	2.75	1.41	5.53	0.72	1.28	4.16	2.62	12.6	3.74
Crucible Steel. . . . .	None	d1.02	3.11	5.26	d8.78	2.54	0.32	172.8	10.24
Doehler Die Cast. . . .	1.25	2.40	2.78	3.46	0.19	2.43	3.25	8.4	3.68
Douglas Aircraft. . . .	5.00	2.70	1.74	1.89	3.76	4.81	3.98	22.6	18.05
Du Pont. . . . .	7.00	5.02	7.53	7.25	3.74	7.65	6.24	22.4	7.23
Eastman Kodak. . . . .	6.00	6.90	8.23	9.76	7.54	8.55	8.20	15.2	7.96
Gen'l Amer. Trans. . . .	3.00	2.64	3.24	4.85	2.91	3.11	3.35	14.9	4.11
General Electric. . . .	1.85	0.97	1.53	2.21	0.96	1.43	1.42	20.3	1.95
General Foods. . . . .	2.00	2.23	2.73	1.73	2.49	2.75	2.58	15.1	2.77
General Motors. . . . .	3.75	3.70	5.35	4.39	2.17	4.06	3.93	9.6	4.32
Inland Steel. . . . .	5.00	6.54	8.54	8.05	3.12	6.73	6.60	10.6	8.87
Int'l Bus. Mach. . . . .	6.00(a)	9.88	10.22	10.42	10.63	10.63	10.35	14.3	10.50
Int'l Nickel. . . . .	2.00	1.66	2.40	3.31	2.09	2.39	2.37	10.6	2.31
Kroger Grocery. . . . .	2.00	2.25	1.90	1.60	2.04	3.01	2.16	11.6	2.49
Loew's. . . . .	3.00	4.52	6.41	8.41	5.65	5.19	6.04	4.9	4.82
John-Manville. . . . .	2.75	2.18	5.13	5.80	1.09	4.28	3.70	15.6	6.35

d—Deficit. (a)—Plus 5% stock.

for the five pre-war years. The company has paid common stock dividends continuously since 1917. Moreover, General Motors appears to be much more adequately equipped to cope with post-war conditions than U. S. Steel, for instance. At the same time the company has assumed responsibility for \$700,000,000 in defense orders. But the idea appears to have become rooted that the company's defense orders will be filled at the expense of more profitable peace-time lines. It may work out that way, but in terms of bed-rock investment values the case in favor of General Motors appears much more valid than in case of the more volatile war stocks.

Much that has been said about General Motors also applies to Chrysler. Recent quotations show a ratio to last year's earnings of about 6.5, and a ratio to the five-year average of about 6.2. Chrysler has Government defense contracts running into hundreds of millions and there is no blinking the fact the resulting disruption in normal activities, along with higher taxes and wages, will exert a restricting influence on earnings. Nevertheless, the company's shares at some 30 points under their 1940 high would seem to have accounted for a lot of water over the dam.

Caterpillar Tractor common stock is another issue which, considering the nature of the company's business, has the backing of consistently good earning power. Company's earnings in the five pre-war years averaged \$3.52 a share and ranged from \$5.24 a share in 1937 to \$1.41 a share in 1938, while last year per-share earnings amounted to \$4.16. Priced at less than 12 times the five-year average and at about 10 times 1940 earnings Caterpillar Tractor common stock, paying and earning a \$2 dividend by a good margin, would seem to conform with a conservative standard of common stock values.

Both Inland Steel and National Steel shares offer an interesting contrast with Bethlehem and U. S. Steel, previously discussed. The record of both these leading steel manufacturers has been much superior to that of the steel industry as a whole. Both companies operated in the black in all of the five years preceding the war, a showing made possible, in both instances, by exceptional plant efficiency and the concentration of manufacturing facilities in light steel products. Reference to the accompanying tabulation will disclose that Inland Steel is currently selling less than 11 times five-year average earnings, while National Steel is priced at less than 10 times.

Even admitting the unusual nature of present circumstances, and the ever present risk of a market crack, certainly such issues as American Smelting & Refining, International Nickel and Standard Oil of New Jersey would seem to be selling at prices which have a more direct relationship to investment apathy than investment values. In the past these issues have been held in high investment regard, a status which could be amply justified on a score of points. Yet American Smelting common is selling less than eight times five-year average earnings; International Nickel, less than 11 times; and Standard Oil of New Jersey at about 10 times. In the case of International Nickel and Standard Oil of New Jersey there are, of course, a number of elements of uncertainty but assuredly both companies have the means and resources which should enable them to successfully weather any contingencies now conceivable.

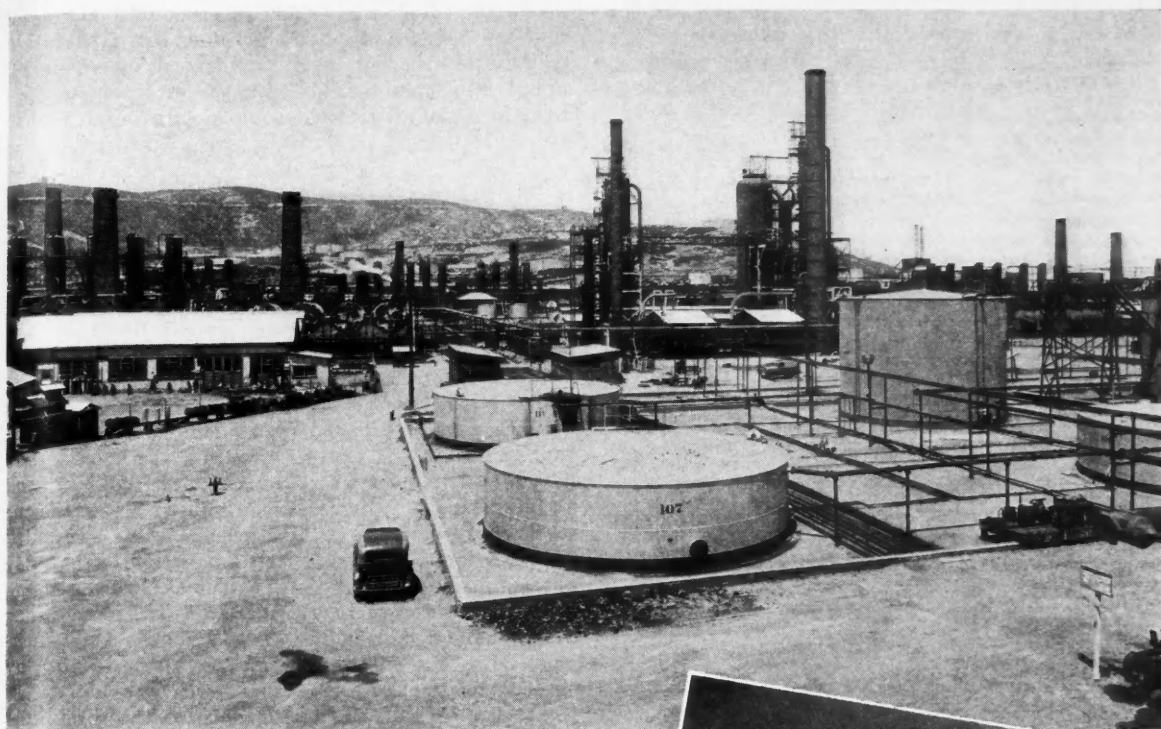
Among companies identified with consumer industries such as retail trade, food products, tobacco, drug products, etc., it will be noted that in many instances their shares are quoted not only at a relatively higher ratio to last year's earnings than the shares of heavy industry

companies, but at a higher ratio to the pre-war average as well. Considering that many of the representative issues of these groups included in the accompanying table have been subjected to rather persistent selling for some time, the existing high ratios may be something of a surprise. For example, American Tobacco "B" is selling nearly 14 times five-year average earnings. The margin of safety provided by earnings for the \$5 dividend, even last year might easily become nonexistent under the burden of heavier taxes. But even if dividends were reduced to \$4 the shares would yield 6 per cent at recent levels around 65. In capitalizing earnings at a relatively high figure, in all probability what the market takes into consideration is the fact that the element of artificiality, so prominent in war stocks, is of scant consequence in so far as the prospects for American Tobacco are concerned. In other words, there is some basis for believing that a company like American Tobacco would be much less vulnerable to a sudden cessation of hostilities, while in the meantime it has an excellent chance of maintaining earnings sufficient to (Please turn to page 213)

## Comparison of Representative Price-Earnings Ratios

Company	Dividend 1940	5-Year Earnings per Share					Avg. for 5 Years	Current Price-Earnings Ratio 5-Yr. Avg. %	Current Price-Earnings Ratio per Share 1940 %
		1935	1936	1937	1938	1939			
Lone Star Cement...	3.50	1.67	3.02	4.24	3.25	3.69	3.17	12.3	3.55
Kennecott Copper...	2.75	1.21	2.36	4.60	2.10	3.14	2.68	12.8	4.05
May Dept. Stores...	3.00	2.81	4.12	4.00	3.10	3.58	3.52	14.2	4.10
Monsanto Chem...	3.00	3.59	4.01	4.31	2.27	4.01	3.64	2.14	4.26
Montgomery Ward	2.75	2.68	3.63	3.41	3.50	4.91	3.62	8.8	4.14
C. C. Murphy...	4.00	4.46	5.91	5.84	4.77	6.47	5.49	11.6	6.58
National Biscuit...	1.20	1.31	1.73	1.62	1.76	1.62	1.61	10.1	1.50
National Steel...	2.50	5.16	5.80	8.21	3.03	5.71	5.58	9.1	6.83
Owens-Ill. Glass...	2.00	3.16	3.80	3.51	2.02	3.17	3.13	13.1	2.70
Penney, J. C...	5.00	6.08	7.36	6.52	5.40	6.48	6.37	12.7	5.91
Phillips Petroleum	2.00	3.23	4.02	5.42	2.03	2.21	3.38	11.8	2.61
Sears Roebuck...	4.25	4.45	5.60	5.58	4.18	6.60	5.28	13.2	6.32
Sperry Corp...	2.00	0.85	1.32	1.46	2.46	2.71	1.76	18.2	3.90
Standard Oil, N. J.	1.75	2.43	3.73	5.64	2.86	3.27	3.58	10.1	4.54
L. S. Starrett...	3.25	1.77	4.08	5.08	3.05	2.13	3.22	11.8	4.94
Sterling Products...	3.90	4.84	5.05	5.29	5.10	5.25	5.10	10.8	5.30
Texas Gulf Sulphur	2.50	1.94	2.57	3.02	1.81	2.04	2.28	15.4	2.38
Thompson Prod...	1.75	2.53	2.60	2.92	1.33	3.90	2.66	10.0	5.17
Tim.-Detroit Axle...	3.25	1.02	2.04	1.69	0.69	2.62	1.61	18.6	3.69
Union Carbide...	2.30	3.03	4.09	4.75	2.77	3.86	3.70	17.9	4.55
United Aircraft...	3.50	0.21	0.76	1.52	2.05	3.53	1.61	22.3	4.95
United Fruit...	4.00	3.56	4.88	4.08	3.55	4.87	4.19	15.0	5.10
U. S. Rubber...	None	1.79	3.31	2.21	0.43	2.91	2.13	10.3	3.58
U. S. Steel...	3.00	d2.76	2.91	8.01	d3.78	1.83	1.24	4.19	8.84
Westinghouse Elec.	4.75	4.50	5.67	7.53	3.38	5.18	5.25	16.7	7.10

d—Deficit. (a)—Plus 5% stock.



The Richmond Refinery of the Standard Oil Co. of California.

## Oils in a *Dual* War Role

**Supplies Ample for War and  
Commercial Needs, But Profit  
Prospects Are Uninspiring**

BY J. C. CLIFFORD

THE recent Balkan conquest by the Nazis and the subsequent threat to Near-Eastern and East-Indian oil fields just about settles the fate of American oil interests outside of the Western Hemisphere. Up to the present writing, Rumanian oil is gone and while the Iran and Irak fields are not as yet out of British control, they may soon be and come what may, as contributors of income to American interests, their usefulness is pretty well depleted, at least, until after the war has been settled and then, only if "our side" is victorious. For all intents and purposes, Eastern-Hemisphere properties need no



A typical up-to-date Texaco Service Station.

longer be considered in appraising the situations of large American oil companies except, perhaps, the consideration of what would be a legitimate charge against income in order to write the various over-seas properties down to their more realistic values.

Loss of the Rumanian field was of little importance to Great Britain for the area has not been a large contributor of oil to the Royal Navy for some months past. But, the loss of the Iran and Irak fields will be another story, for the British Navy has been dependent upon oil from these fields in order easily to fuel the large fleet that has been operating in the Mediterranean. In order still to operate the fleet it is necessary for Great Britain to obtain a new, and less dangerous source of oil. And, with the Western Hemisphere producing nearly 75 per cent of the world's output of petroleum, American oils are the logical sources of supply. By American oils is not meant oil from the United States alone. Most of the United States petroleum is of such high quality that

## U. S. Petroleum Industry

1940 vs. 1917

PRODUCTION	1940	1917
Oil-producing states.....	23	18
Number of producing oil wells...	390,000	197,000
Production of crude oil.....	1,350,000,000 barrels	335,000,000 barrels
Proved U. S. crude-oil reserves (underground storage).....	19,024,515,000 barrels	6,500,000,000 barrels
Production of natural gas.....	2,500,000,000 cu. ft.	795,000,000 cu. ft.
REFINING		
Number of refineries.....	557	240
Refining capacity.....	4,700,000 bbls.*	1,100,000 bbls.*
Crude oil processed.....	1,294,000,000 barrels	315,000,000 barrels
Production of motor fuel.....	26,000,000,000 gallons	2,800,000,000 gallons
Production of natural gasoline...	2,300,000,000 gallons	210,000,000 gallons
Yield of gasoline from crude oil.	18 gallons	9 gallons
Production of lubricating oils....	36,765,000 barrels	17,950,000 barrels
Production of fuel oils.....	500,000,000 barrels	155,000,000 barrels
STORAGE		
Stocks of gasoline.....	3,500,000,000 gallons	412,000,000 gallons
Stocks of lubricating oils.....	8,767,000 barrels	3,260,000 barrels
Stocks of fuel oils.....	144,150,000 barrels	13,760,000 barrels
TRANSPORTATION		
Mileage of oil pipe lines.....	126,000 miles	50,000 miles
Number of tank ships.....	467	54
Gross tonnage of tank ships....	2,950,000 tons	150,000 tons
Number of railroad tank cars....	148,000	57,000
Railroad petroleum freight ship- ments.....	60,000,000 tons	30,500,000 tons
DISTRIBUTION		
Number of bulk plants.....	31,000	5,000
Number of service stations.....	246,000	15,000
Number of tank trucks.....	75,000	10,000
Total outlets for gasoline and oil.	440,000	25,000

\*Daily.

—From "Petroleum Facts & Figures"

it would be almost criminal to use it solely for the generation of steam. On the other hand, Mexican and some South American oils are of such low gasoline content that they are useful for little else than for burning. We may supply refined oils and gasoline to Great Britain but South and Central America will supply burning oils. The recently reported contract between the Government of Mexico and Great Britain for virtually the entire Mexican output of certain types of relatively low grade crude oils effectively testifies to the truth of the above hypothesis.

### Ship Scarcity Affects Fuel Oil Prospects

Due to the nationalistic policies of Mexico under the Cardenas regime, no American company will benefit substantially from the British contract for Mexican oils. A relatively few of the major American oil companies will derive some benefit from the probable increased demand for Venezuelan and Brazilian oils but this will not be extra income for it will only partly offset the lack of domestic sales of foreign crudes because of the increasing difficulty of transporting them to this country. The shift in demand for crude to South American and Central American sources of supply will therefore be of but small benefit to the United States oil companies as a whole and only of comparative benefit to a very few of the larger companies who will find a market for products which they otherwise would be unable to use.

But, the elimination of foreign crude oil imports will have a strong bearing upon the domestic oil situation. In the case of a high grade crude—such as is found in almost all domestic fields with the exception of some areas in coastal Texas—it would not be economical to use the crude oil directly as fuel. American oils all have higher than average motor fuel contents and most of the lower gravity distillates obtained from the crude are susceptible to further treatment which again increases the yield of gasoline. In order to obtain fuel oil from the majority of American crudes, therefore, it is necessary to make a disproportionately large quantity of gasoline. Not that gasoline is not a desirable commodity, but storage facilities are limited and we already have record inventories of motor fuel on hand awaiting consumption. With a decline of Venezuelan oil supplies—which usually have but small gasoline content—the supplies of burning oils will probably also recede. We have a fairly large supply of burning or fuel oils on hand at the moment, but since much industrial power is the result of fuel oil burning, these consumers will be granted priorities for their needs. Any left over after industry has had its fill will be allocated to home consumers. And since the costs of making fuel oil will be higher, selling prices of the commodity will also advance. Profit margins, however, will do well if they manage to stay stationary although there is a strong possibility that the fuel oil manufacturers will have to absorb at least a part of their higher costs if only on the basis of the annual contracts under which most of the fuel oil consumed in this country is sold. A longer term effect is the probable abandonment of fuel oil as a source of household heat, due to the increasing price differential between oil and coal and coming restrictions on the manufacture of domestic oil-burning equipment in the interest of conservation of fuel oil for defense purposes. Then too, another difficulty which will undoubtedly add to the price of all fuel oils is that formerly, fuel oil came from the Gulf ports by tankers and thus gave the middle Atlantic seaboard the benefit of the water rates. Tankers to Britain have made the water route increasingly difficult, for their are insufficient tankers available to take care of domestic wants and, hence, fuel oils will be coming north by railroad in increasing volume. The rail

## PEOPLE, CARS, AND GASOLINE USED, 1940

### GASOLINE USED

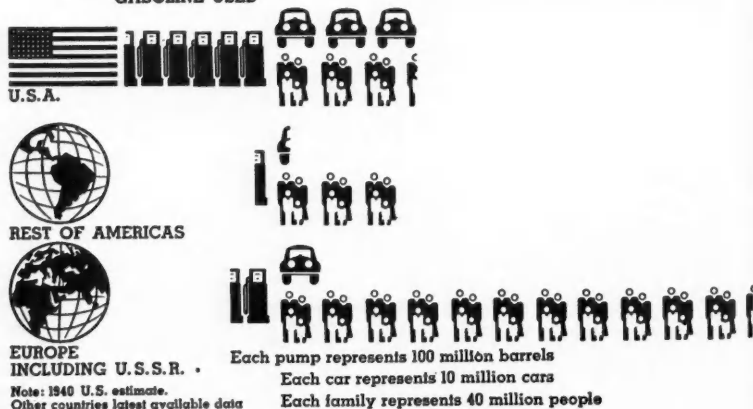
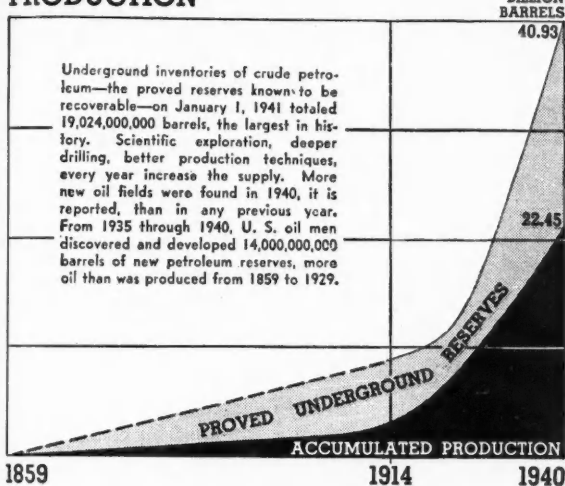


Chart Courtesy American Petroleum Institute

rate is of necessity much higher than the water rate. As long as it is practical to do so, the petroleum industry will continue to import as much foreign crude oil as possible, but the time will come when such imports are no longer feasible. High imports are no threat to the domestic crude producers, for they permit the use of domestic crude for the making of motor fuels and lubricants which are by far more profitable than the preparation of low priced fuel oils.

At the present time, the domestic petroleum industry is in a good statistical position. At the date of the most recent report, there were 95,703,000 barrels of gasoline in storage and in transit as well as 31,548,000 barrels of gas oils and distillates and 94,700,000 barrels of residual fuel oil stocks. Gasoline stocks were substantially lower than in the previous week and showed a very strong decline from the burdensome levels of a year ago when gasoline holdings were close to 103,000,000 barrels. As

## PROVED RESERVES KEEP AHEAD OF PRODUCTION

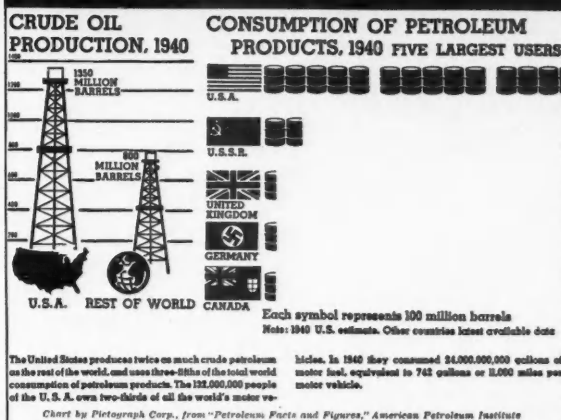


should be the case at this time of year, gasoline stocks declined, gas and distillate oils advanced and stocks of residual oils are remaining stationary.

From the above figures it is indicated that gasoline consumption is currently running at the rate of approximately 13,500,000 barrels weekly. On that basis, supplies of gasoline currently on hand would be adequate for nearly 50 days if production were suddenly to cease and no check were placed upon consumption. As it is, with the refinery end of the industry operating at about 89.2 per cent of capacity, it would take the best part of 2½ years to exhaust current reserves of motor fuel. And, with the refineries operated at full rated capacity of approximately 14,000,000 barrels weekly, consumption of 13,500,000 barrels of gasoline a week would leave a comfortable surplus after all needs were attended to. There is no likelihood that gasoline will be rationed, for this country can produce more motor fuel than it is possible to consume even under the most extenuating circumstances. The situation in the crude production end of the industry points this out graphically.

In the first place, forty or more years ago, scientists gave our then-known oil reserves another ten or so years to exist at the very small rate of consumption which pre-

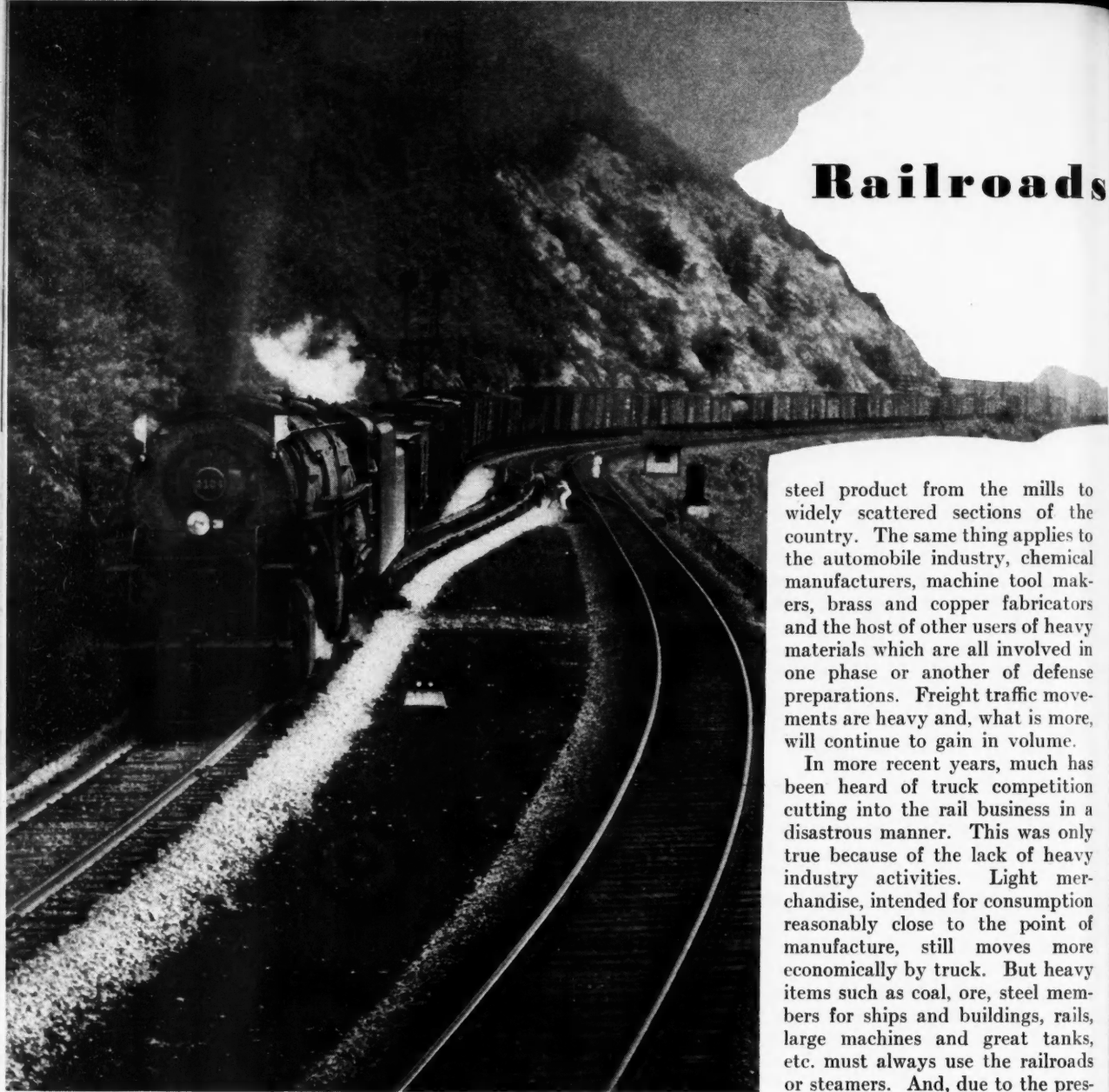
## THE UNITED STATES—A WORLD LEADER IN PETROLEUM PRODUCTION AND USE



vailed at that time. Their prediction might have been accurate if no other oil reserves were discovered, but many more were found and production and consumption increased sharply from year to year. At this moment, known American oil reserves are greater than they were at the beginning of the last decade, and despite immeasurably increased consumption, their probable life has been expanded by almost 100 per cent. New recovery methods, proration of output and other technical advances have in some measure been responsible for expanding apparent crude oil reserves, but the most important force has been the indefatigable search for new supplies carried on at all times by the large oil companies as well as numberless independents. There is no immediate need for concern over future crude oil supplies in this country.

Demand for refined petroleum products is good and on a seasonal basis should continue to increase for the next four months, at least. On a gallonage basis, gasoline consumption in 1941 should again set a new high record—a habit established several years back—but the latest gain will probably be the result of an unusually early spring rather than a reflection of rising consumer purchasing power. Taken as a whole, it is probable that the average consumption per automobile in service during 1941 will decline moderately, although there will also probably be many more automobiles on the road than in the more recent past. Greater operating efficiency of new cars will account for only a small part of the decline in per vehicle consumption, the greater part will be caused by the fact that most people will be too busy to ride aimlessly and they will also get a somewhat lesser quantity of gasoline for their dollar than they have been accustomed to get in the last several years. Higher selling prices of gasoline are a foregone conclusion for the next several months, for such an advance is one of the oldest customs of the trade. But the increase will not be drastic enough to curtail consumption by the average motorist. While the actual price of gasoline will only be moderately higher, taxes are likely to increase sharply and thus make up the difference which is constantly fostering the law of diminishing returns. Gasoline taxes are easy to collect and have been a fertile source of income to taxing bodies. There is no probability that they will be (Please turn to page 214)

# Railroads a



Triangle Photo

**A**NY railroad man would tell you that his idea of heaven would be an over-abundance of long-haul freight and elimination of at least a sizable part of truck and steamship competition. Under such ideal conditions, he might add, the railroads could make money in something approaching their former capacity. And he would be right. Just at this time, conditions in the railroad industry are close to a railroader's ideal. But how long they will continue in that condition is another thing entirely and must depend upon many relevant factors and developments.

Intense activity in practically every branch of heavy and light industry has been responsible for the greatest revival of freight movement seen since the early days of the last war. Steel operations running at concert pitch have necessitated heavy movements of coal, iron ore and lime stone to the mills and every conceivable kind of

steel product from the mills to widely scattered sections of the country. The same thing applies to the automobile industry, chemical manufacturers, machine tool makers, brass and copper fabricators and the host of other users of heavy materials which are all involved in one phase or another of defense preparations. Freight traffic movements are heavy and, what is more, will continue to gain in volume.

In more recent years, much has been heard of truck competition cutting into the rail business in a disastrous manner. This was only true because of the lack of heavy industry activities. Light merchandise, intended for consumption reasonably close to the point of manufacture, still moves more economically by truck. But heavy items such as coal, ore, steel members for ships and buildings, rails, large machines and great tanks, etc. must always use the railroads or steamers. And, due to the present policy of turning over almost anything that will float to the British, the number of steamers en-

gaged in coast-wise traffic is shrinking rapidly and they will soon be conspicuous by their absence. Exit number one competitor of the railroads. The next competitor of the railroad which is on the decline is the truck. Rubber and gasoline are both absolute necessities for the operation of most trucks and if fuel oil for Diesels is added, the full measure of truck operating needs is covered. But there is also the need for replacement and parts which frequently becomes apparent if operating time is extended and maintenance time reduced. In the not so distant future, it is going to be difficult for the trucks to obtain serviceable tires while at the same time, it will be necessary to pay more for fuel. It is even possible that truck fuel will be rationed if it becomes necessary to lay down large stores for military purposes. What is quite definite in the case of the trucks is that fuel taxes will

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# and Rail Equipments

BY STANLEY DEVLIN

## A Decade of Depression Ends as Defense Boom Promises Record Volume

continue to mount—there will probably be no excise tax on the railroad's coal—and new trucks and parts will become increasingly difficult and expensive to obtain. All of which is definitely favorable to the competitive position of the railroads.

Car-loadings in 1941 give indications of hitting a new high peak since 1930. For instance, in the week ended May 10, 837,149 cars were loaded as compared with only 680,628 in the same week of 1940 and were higher than in any average week since October of 1930. The May 10 loadings were but a few hundred cars short of the peak week of 1940 which occurred in October, the traditional seasonal high point for the year's loadings. Due to the cessation of soft coal production earlier in the year, cumulative car loadings for the 19 weeks of 1941 were not quite so well in advance of those of a year ago but nevertheless total cars loaded in the period were 13,807,214 units or nearly 15 per cent higher than in the same period of a year ago, when coal shipments were uninterrupted. Now that coal is once again on the move to the mills, car-loadings should continue their rise, for when coal does not move into the steel mills, the amount of steel moving out declines sharply. And vice-versa.

It is generally conceded that car-loadings will make a new high peak later this year. How much this peak will be is, of course, controversial. Much will depend upon the number of cars available and the roads' ability to move them with the equipment on hand. If the current 15 per cent advantage over 1940 is maintained, then total car-loadings for the year will be close to 42,000,000 units—the best for a decade—and very close to the 45,717,000 cars reported loaded in 1930. Incidentally, the best record of recent years was 59,812,000 cars loaded in 1923. The comparison loses some significance by virtue of the fact that most of the newer freight cars can carry 30 per cent more freight now than even 10 years ago so that for the purpose of long term comparison, the actual tonnage moved is more appropriate. In 1940, the roads carried 1,009,403,000 tons of assorted freight. Granting an increase in tonnage carried in proportion to the number of cars utilized, it is therefore possible that this year's freight shipments will amount to nearly 1,200,000,000 tons or even more than the 1,153,157,000 tons carried in 1930, the banner year of the past decade, and very close to the record of 1,339,091,000 tons carried in 1929. And the prospects for next year and even the year after that

are better. And of even greater importance is the fact that the gains are generally distributed throughout the country; no one district supplying the bulk of the improvement such as has been the case in the more recent years when gains were reported.

It goes without saying that all of the railroad traffic gains in the world would be without special interest to the railroad security owners if there were not some concomitant gain in earnings. So far earnings have also risen, although at a moderately slower pace. In the first 3 months of 1941, the Class 1 roads earned \$201,503,219 before interest and rental charges as compared with earnings of \$115,903,566 under similar conditions in

the same period of 1940. First quarter 1941 earnings were still well below those of 1930—the last year of very high car loadings—but what is most significant is that during the first 3 months of the current year, the annual rate of return on property investment was 4.15 per cent as compared with 2.41 per cent in the initial quarter of 1940 and 3.48 per cent in 1930. In other words, the railroads earned more on their property investment in the first quarter of this year than in any recent year, including 1930.

Gross revenues in the months of January to March were \$1,152,106,852 or 16.8 per cent higher than a year ago. They were, however, 12.5 per cent lower than in 1930 although the gross receipt improvement over a year ago, as expressed in percentage, was moderately better than the percentage gain in cars loaded. March gross revenues were at the highest point for the month in a number of years and were only exceeded by a sizable margin in March of 1930 when the figure reported was approximately \$31,000,000 greater.

### Operating Ratios Lower

Operating costs during the first part of this year were, of course, higher than a year ago but the operating ratio (the relation between gross receipts and expenses) was 70.12 per cent as compared with 75.69 per cent in the same period of 1940. In other words, less of the gross income was absorbed in expenses with the result that a greater proportion came down to net operating income. March figures made an even more favorable impression with an operating ratio of 68.06 per cent as compared with 76.00 per cent in March, 1940.

The greatest saving to the roads was in labor costs. The old wage rates held good through the first two months of the year and in March, the minimum wage law went into effect which added roughly \$7,000,000 a year to the expenses of the Class 1 roads. Since then, the coal miners have obtained an increase in pay which will add approximately \$20,000,000 to the fuel bill of the roads. While railroad wage rates are reasonably high, there is now a movement under foot to obtain even higher pay which will, if granted, add additional burdens to the roads and thus again increase the operating ratio and probably reduce net income. What the increased burden to the roads may be can be gathered

## Railroad Equipment Orders

For 1st Quarter of 1941

FREIGHT CARS				
New Orders		Unfilled Orders*		
	1941	1940	1941	1940
January.....	14,118	479	41,600	35,702
February.....	5,645	2,748	39,353	28,162
March.....	7,685	1,851	39,000E	21,112
1st Quarter.....	27,448	5,078	.....	.....
STEAM LOCOMOTIVES				
January.....	54	27	118	62
February.....	44	0	132	70
March.....	56	0	150E	59
1st Quarter.....	154	27	.....	.....
DIESEL, ELECTRIC & OTHER LOCOMOTIVES				
January.....	55	27	118	62
February.....	83	13	166	62
March.....	63	40	200E	56
1st Quarter.....	201	80	.....	.....

E—Estimated. \*At the end of the month.

Sources—Standard & Poor's, Inc. Railway Age, A. A. R.

from the competent estimates that with every 5 per cent increase in wages granted to employees the roads must pay approximately \$100,000,000 more. In other words, should the 30 per cent increase now talked of by several of the brotherhoods be generally applied, the roads would have \$600,000,000 added to their expenses or approximately equal to the fixed charges of the Class 1 roads in 1940. It is unlikely that anything like 30 per cent increase will be the final settlement but 10 per cent is possible. At the present time, wages amount to approximately 65 per cent of railroad operating costs and take close to 50 per cent of gross income. Average annual wages are practically double pre-world-war levels and are also considerably higher than the pre-depression peak. The effects of previous wage increases have to a great extent been offset by increased efficiency and if given any help from higher car-loadings and moderately improved freight rates in some classifications, at least, the roads should again be successful in paying better wages while at the same time reporting higher operating income.

While the railroads have little to fear from excess profits taxes, they are vulnerable to higher corporate taxes and the multiplicity of special taxes such as Social Security, the Doughton Railroad Pension Act as well as the host of state and municipal taxes exacted by the communities which the roads traverse. Both the Social Security and Railroad Pension Act are doubly burdensome since they are based upon pay-rolls and rise with every increase in wage rates as well as by virtue of the terms of the laws themselves. For instance, Social Security now requires a payment of 3 per cent of the annual pay-roll while the Pension Act also demands another 3 per cent. But in the case of the Pension Act, the rate

will increase to 3¼ per cent in 1943, to 3½ per cent in 1946 and finally to 3¾ per cent in 1949. These taxes were only partially offset by the abandonment of the former private pension plans of many of the roads.

Fuel prices are rising but they will not have so great a bearing on future railroad profits as wages or taxes. Last year, about 19 per cent of total railroad revenues went for fuels and materials other than those used for capital improvement. The total fuel bill amounted to approximately \$263,000,000 of which about \$206,000,000 was for bituminous coal. Obviously, a 10 per cent increase in fuel prices would not be a knock-out blow to the roads although, when added to other rising costs, it is a contribution of no mean proportion. What will probably be more costly to the roads is the need for new equipment both for the roadbeds and rolling stock. In this particular situation lies the greatest danger to the roads for new additions have been inadequate in the past decade and retirement of obsolete equipment has exceeded the introduction of new engines and freight cars by a substantial margin with the result that car and locomotive inventories have been declining even though the efficiency of the equipment now in operation is considerably higher than a decade ago.

The greatest danger in this situation lies in the fact that the Government has indicated that if the railroads fail to meet the test of still greater freight shipments with no faltering or delay, it—the Government—has every intention of federalizing the roads of this country in much the same manner as was done during the last war. The railroads were hardly to blame for their reluctance to purchase new equipment during the depression years for there frequently was not enough business available to more than pay wages, in many instances, and it was only by the greatest effort that a few of even the best regarded roads were able to pay interest on their funded debts, let alone to purchase new equipment. Depression years also piled up considerable additional debt to the Government lending agencies and bankers which railroad managements attempted to liquidate before adding new freight cars and equipment for which

## Armament Order Backlogs Vs. 1940 Total Sales of Railroad Equipment Manufacturers

	1940 Sales	Estimated Backlog (\$1,000)	% 1940 Sales
American Brake Shoe.....	31,574	4,000	12.7
American Car & Foundry.....	E50,000	95,000	190.0
American Locomotive.....	38,439	120,000	312.2
American Steel Foundries.....	26,348	10,000	38.0
Baldwin Locomotive.....	E30,575	84,000	275.0
General Railway Signal.....	E5,000	4,400	88.0
General Steel Castings.....	E14,000	8,000	57.2
Lima Locomotive.....	6,902	9,000	132.4
Midvale Co.....	E23,550	38,000	161.4
National Malleable Steel.....	17,765	3,000	16.9
N. Y. Air Brake.....	7,407	5,000	67.5
Pittsburgh Forgings.....	E7,500	2,500	33.3
Pressed Steel Car.....	37,916	28,000	100.1
Pullman, Inc.....	63,098	49,000	77.6
Symington-Gould.....	E6,300	2,000	31.7
Westinghouse Air Brake.....	32,513	6,000	18.5

E—Estimated. Source—Standard & Poor's, Inc.

there was no immediate or foreseeable future use. Nevertheless, since 1939—when it began to become apparent that a war boom might be in the offing—the roads began, slowly at first but later at a quicker pace, to buy additional equipment. What the actual details of further railroad equipment purchases may be will be discussed under the section of this article which is devoted to the railroad equipment manufacturers.

Should the Federal Government nationalize the roads—and such a step is more than possible—it would not be an immediately unfavorable development for the bondholders and equity owners if the pattern of the last seizure is followed again. When the roads were taken over in 1917, the Government continued to pay interest to the bondholders and also continued dividend payments that were in force at the time of the seizure. In pure equity, it is hard to see how a repetition of this program can be avoided this time. The more adverse side of nationalization would come when the roads were again released from Federal control. Last time, it was found that the efficiency of the roads had dropped considerably during their period of war service and it took a long time to rehabilitate them. This time it is not so certain that the roads would emerge quite as rapidly as before, for it would be an opportunity to coordinate the various systems along the lines planned by the Government some time ago and frequently brought up for discussion to this day.

Despite the fact that both wages and taxes will be higher in 1941, it is likely that net income after all charges will be moderately better than a year ago. There is a tremendous operating leverage factor at work which makes possible carrying down to net income an increasingly large amount of revenue as car loadings increase. That is because in times of heavy demand for transportation facilities, cars are more fully loaded and more cars added to a train without a proportionate increase in the size of train crews or consumption of fuel. If it were not for higher wages and taxes, the railroads would probably have an earnings year the like of which has not been seen in more than a decade. As it is, the net effect of better gross revenues will be to improve the status of roads which have been staying solvent by the slightest of margins, improve the physical conditions of all roads and to hasten the reorganization of others which have been under the protection of the courts for a number of years past. Reorganizations will reduce the fixed charge requirements of many of the now insolvent roads and, at the same time, better income will probably result in the retirement of a fair sized proportion of fixed debt of still solvent roads and thus strengthen their future positions. Then, too, the roads will probably more



*Courtesy Baldwin Locomotive*

closely reflect general business conditions in the future, due to the gradual elimination of much competition from non-rail carriers, and thus help to flatten out the deep swings in earnings characteristic of recent years when the railroad income followed the fortunes of heavy industry. Marketwise, the junior funded issues of most of the railroads have already reflected these possibilities by markedly better prices while the equities will probably follow along when the outlook becomes more clearly and generally defined.

It has been pointed out that the railroads are still in need of considerable new equipment despite the fact that they have been buying—rather belatedly—since 1939. At the date of the latest report—May 1—the roads are reputed to have on order 56,502 new freight cars and 438 new locomotives of which 227 were Diesels. This is said to be the greatest number of freight cars on order at any one time for the past 16 years. Present orders are part of a program which is expected to add 100,000 new cars to the roads' inventories by the close of 1941 and by October of this year it is also expected that the roads will have about 1,617,000 cars in service in time to catch the peak of carloadings which customarily appears some time during the latter part of the month. To this amount it is now recommended by the Association of American Railroads that its members add 120,000 new cars in 1942 and 150,000 more in 1943, in which year the peak of defense loadings is expected to occur. The recommendation has the approval of the member roads and thus presages a vast quantity of car building for the already heavily burdened railroad equipment makers.

To say that the railroad equipment makers are overburdened seems fallacious to those who know that this industry is one of the most over-capacitated of any of the country's major business. But it is so by virtue of the fact that these same railroad equipment builders are among the nation's most adept (*Please turn to page 216*)

# For Profit and Income

## Investment Opportunity

Crane Co., 5% preferred shares are currently selling around \$100, at which levels they combine sound investment quality with a better-than-average return for this type of security. The company engages in the manufacture of brass, iron and steel valves, fittings and appliances for controlling and conveying water, oil and other liquids, steam air and gases, which products are used in practically all major industries. In addition the company manufactures heating and plumbing supplies for both industrial and residential uses. Last year earnings available for dividends on the 192,803 shares of preferred stock were sufficient to cover dividends more than five times, which compared with 4.6

times in 1939. Funded debt totals \$10,600,000, while common stock outstanding total 2,348,628 shares, which at recent quotations represents a junior equity of some \$32,000,000. Financial position at the close of last year was excellent. Operations are currently being conducted at virtual capacity, and sales thus far in the current year have been running well in excess of the volume a year ago. The 5% preferred shares are convertible into two shares of common stock but at the present time this privilege is without value. Call price \$105.

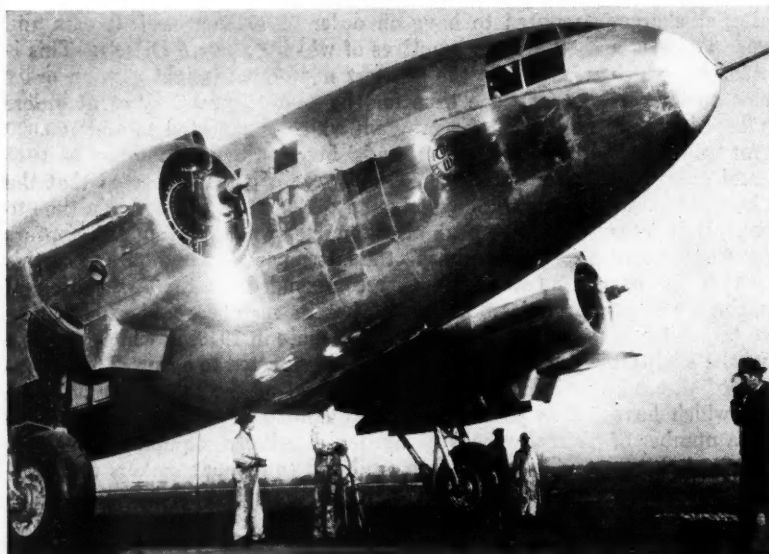
## Woolworth

At the recent annual stockholders' meeting of F. W. Woolworth it was disclosed that the company's do-

mestic sales in the first four months of the current year were some 8 per cent ahead of last year, with the largest gains being made in defense industrial areas and training centers. Sales in Canada were also ahead of last year but it was expected that increased taxes would absorb a considerable part of the profit resulting from these gains. It was also reported that despite the difficult conditions in Great Britain, F. W. Woolworth & Co., Ltd., was doing a remarkable business. The number of stores affected by bombing raids was stated to have been negligible. The company's shares continue to reflect uncertainty over the continuance of the present \$2.40 dividend, the principal threat to which is the prospect of reduced returns from the British subsidiary this year. A reduction, to say \$2, however, would still provide a yield of better than 6 per cent, based on recent quotations.

## The 24-Hour, 7-Day Week

President Roosevelt has recently urged that defense industries adopt a 24-hour 7-day week to speed up production. Timken Roller Bearing has announced a 24-hour-day work plan which might well serve as a pattern for other companies under the pressure of stepping up output. In its Canton and Columbus, Ohio, plants this company has worked out a system which enables it to keep its equipment running 168 hours a week, or 24 hours a day for seven days. In this manner the company will be enabled to eliminate the week-end stoppage, while still complying with the 40-hour week. The plan calls for three 8-hour shifts a



One of the new 36-passenger Curtiss transport planes.—  
America's largest twin-engined airliner.

day up to 40 hours a week. By having four crews instead of three to handle the three shifts, the working time for each crew is rotated so that it works 40 hours a week, the four crews thus keeping the equipment working 160 hours a week. Under a scheduling arrangement of shifts and crews, each crew works five extra shifts over a period of 20 weeks. These five extra shifts for each of the four crews bring the "equipment work-week" up to the 168 hour total. Under this schedule each man works five days in a row and then is off at least 48 hours, after which he changes shifts. Over each period of 20 weeks each man has five Sundays off.

### Shortage of Commercial Air Transports?

Shortly after the start of the national defense program leading air transport companies were urged to freeze equipment designs and it was feared that defense requirements would prevent the airlines from obtaining needed equipment. These fears since, however, have been materially alleviated. Not only have the airlines accepted delivery this year of a number of new planes, but recently it was announced that TWA had placed orders with Lockheed for 40 new super-transports designed to accommodate 64 passengers. The Priorities Board has authorized construction to proceed on three. These new planes will shorten the flying time from New York to Los Angeles to 8½ hours and put domestic transport flying time on a par with international schedules. In connection with this large order, it is significant that 40 planes of this size could transport 16,000 troops to Alaska or 12,000 to Canal Zone in 36 hours or 7,500 to Hawaii in 48 hours. This may have had a lot of bearing on the decision of the Priorities Board.

### So They Say—

Although summer catalog "flyers" of Sears, Roebuck and Montgomery Ward showed lower prices for a number of important items, higher prices are being scheduled in the winter catalog. . . . Airlines may have an adjustment in air mail rates which will place this phase of their activities on a more profitable basis. . . . Television, for which great

## More First Quarter Reports

	Earned per Share 1st 3 Mos., 1941	Earned per Share 1st 3 Mos., 1940	Most Recent Dividend
Amerade Corporation . . . . .	\$0.64	\$0.58	\$0.50
Anaconda . . . . .	1.34	1.21	0.50
Bendix Aviation . . . . .	1.46	0.92	1.00
Briggs Manufacturing . . . . .	0.92	1.33	0.50
Briggs & Stratton . . . . .	1.27	1.34	0.75
Celanese Corporation . . . . .	0.84	1.36	0.50
Curtiss-Wright . . . . .	0.58	0.24	0.50(a)
Cleveland Graphite Bronze . . . . .	1.65	1.36	0.40
Driver-Harris . . . . .	1.97	1.41	0.60
Evans Products . . . . .	0.41	0.05	None
Ohio Oil . . . . .	0.22	0.27	0.25
Peoples Drug Stores . . . . .	0.49	0.42	0.40
Purity Bakeries . . . . .	0.52	0.37	0.25
Simonds Saw & Steel . . . . .	1.25	0.79	0.40
Sterling Products . . . . .	1.86	1.87	0.95
Timken Roller Bearing . . . . .	1.08	1.20	0.75
Union Bag & Paper . . . . .	0.44	0.41	0.25

(a) Paid December 31, 1940.

things were being promised several years ago, remains still pretty much in the experimental stage. . . . When you read steel production figures above 100 per cent of capacity, it isn't a misprint. Capacity figures make an allowance of 11 per cent for relining and repairs. . . . Price control legislation is in the making. . . . There'll be some real public complaining when householders realize what fuel oil is going to cost them next winter. . . . Sales of farm equipment are running 20 per cent ahead of last year. . . . The recent cut in refined sugar prices is the first reduction in 10 months. . . . Pipe lines are operating at capacity and plans for construction of new facilities on a large scale are under way. Tanker shortage is responsible. . . . Ford's new six-cylinder car is reported to have reached the hands of Detroit dealers. Of all times, the present seems the least fitting to introduce a radically new model. . . . Prices of men's shoes have already been raised and an advance in prices of women's shoes is slated for the fall. . . . Earnings of Square D will approximate \$3.50 a share for the first half. . . . Estimates indicate construction of 700,000 new homes this year but priorities may halt this boom in its tracks.

### Dresser Manufacturing

Dresser Manufacturing Co., is now beginning to cash in on an aggressive program of expansion and

diversification initiated by the management about seven years ago. The backbone of the company's business is the manufacture of pipe line fittings and couplings which, however, has been augmented by the acquisition in 1933 of the Bryant Heater Co., a leading manufacturer of house heating and air conditioning apparatus, and in 1937 Clark Bros., Co., was brought into the fold. The latter company makes compression equipment for the oil and gas industries. The most recent acquisition, in 1940, was the Pacific Pump Works, manufacturing centrifugal pumps and kindred products. Last year the company's sales volume was nearly three times that for 1936 and some 70 per cent higher than in 1940. Net income in 1940 was up 55 per cent from the 1939 figure, and was equivalent to \$3.57 a share on the 335,000 shares of stock which comprise the company's entire capitalization. Profits in 1939 were equal to \$2.55 a share on 300,000 shares of stock. Financial position at the close of last year was comfortable, net current assets of approximately \$2,500,000 having been equal to about \$7.50 a share for the stock. Last year dividends totaling \$2 were paid and at least this much will probably be paid this year. Earnings in the first quarter after allowance for increased taxes were equal to 84 cents a share, comparing with \$1.17 a share on a smaller number of shares in the same period a year ago.

# Another Look At . . .

HOMESTAKE MINING — MACK TRUCKS — WARNER BROTHERS

SUTHERLAND PAPER — SEARS, ROEBUCK

## Homestake Mining Company



Homestake Mining Company confined its operations last year in great measure to the less prolific ores in the interest of further development of its properties. Such a step is unusual in times of mounting operating costs but in this case it was necessary in order to extend reserves. How much actual gold was recovered has not been reported, although it is evident

that the actual quantity failed to equal the record output of 570,000 ounces recovered during 1939.

While the quantity of gold recovered apparently did not approach that of the previous year, the volume of ore removed exceeded that of 1939 by a substantial figure. However, since the selling price of the metal was the same in both years, the fact that the realization per ton of ore milled was \$13.26, as compared with \$14.23 a ton in the previous year, shows that the quality of the ore handled during 1940 was definitely of poorer quality.

Ore that runs \$13.26 to the ton is not by any means lean and should furnish adequate income, even should the gold content not improve. But, the gold content probably will improve, for there are parts of the ore body which have already been explored that will yield substantially better than \$14 a ton if operations are confined to these areas. At the close of the year, the company indicated that blocked-out reserves of ore were approximately 19,034,400 tons, the highest figure reported in many years and equivalent to a 13-year supply of raw materials at the present rate of operations.

The increased tonnage milled was not sufficient to offset the relatively poorer grade of ore mined or higher operating costs. Because of the first factor, sales of bullion amounted to \$19,014,768 or nearly \$1,000,000 below a year ago. Because of higher costs per ton and also moderately higher taxes, net profit of \$6,091,137 was more than \$1,000,000 lower than a year ago and the earnings per share of common stock fell to \$3.03 as compared with \$3.53 per share in 1939. Dividends paid were in excess of net profits by \$2,172 although in the case of a mining

property, where depletion and depreciation are deducted prior to the calculation of net income, such procedure is not unusual. Taxes were \$450,000 higher than a year ago but mining companies are permitted to make numerous deductions not applicable to straight commercial operations, since each dollar taken from the mines reduces the property value by that amount, at least.

There is no immediate possibility that the price of metallic gold will decline. Congress is continuing the Presidential powers to devalue the dollar. The immediate possibility of an upward revision is quite remote in view of the Administration's anti-inflation efforts. Homestake earnings will likely continue at approximately 1940 levels, while taxes will be moderately higher. Dividends will, however, be continued at close to present levels. Lacking a free market for gold, there is no likelihood that the gold shares in general and the shares of Homestake Mining in particular will be in great demand as an inflation hedge although they should be attractive as a source of a reasonably secure dividend at a good rate.

## Mack Trucks, Inc.



Since the company is now engaged in the production of considerable military material as well as commercial equipment, operating figures are not being divulged quite so freely as in the past. Among the figures which the company no longer divulges, is the actual size of the unfilled order backlog, although it is hinted that it is sizable and that the company's facilities

to manufacture certain materials are insufficient to handle the volume of business on hand. To correct this condition, the company has indicated that it is expanding its equipment and has been negotiating with the government for assistance toward this end. The expansion contemplated does not, however, include any major construction projects.

In addition to its military business, Mack Trucks is making considerable progress in the commercial field

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with the result that the company has improved its competitive position. In the words of the company, competition is still as keen as ever but "a fairer price tendency" is apparent. This probably means that the demand for commercial trucks is so good that the trade is no longer forced to cut list prices or to grant excessive allowances on turned-in trucks in order to secure all of the business that can be handled.

While operating figures are scarce, financial figures are not. In the first quarter of the current year, Mack Trucks reported earnings of \$659,359 or the equivalent of \$1.10 a share of common stock as compared with \$0.19 a share in the same period of 1940. The 1941 figure included deductions for estimated Federal taxes at the new rates and thus, it is indicated that actual operating income before tax reserves was very much better than that of a year ago. As far as now can be ascertained, it is probable that the remaining quarters of the year will make favorable comparison with those of 1940 although the degree of betterment will probably decline progressively in view of the excellent results of the final quarter of 1940. Nevertheless, despite higher taxes and other costs, it is probable that earnings for this year will be better than the \$3.02 a share reported for the most recent year.

With earnings at high levels, it is most likely that the dividend rate will also improve. Last year, total payments amounted to \$1.50 a share. There is no set dividend rate nor time of payment so that the fact that nothing has as yet been distributed in the form of dividends this year is without significance. Last year, the first payment was \$0.50 a share made in August and the other \$1 came as a year-end distribution. What the future may hold from a market standpoint cannot be said with any degree of accuracy. The automobile industry as a whole will probably suffer from enforced priorities and excise taxes so that the group will probably not be particularly attractive as speculative media. However, even if last year's dividend rate is maintained, the dividend return at current market prices is attractive and should serve in a great measure to offset the more adverse influences which will have greater bearing upon the manufacturers of passenger cars than upon the makers of purely commercial vehicles.

#### Warner Brothers Pictures, Inc.



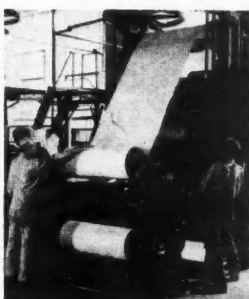
Warner Brothers has been taking advantage of restrictions upon the amount of money that may be taken out of England to reduce its Sterling debt. This is done, of course, after the maximum amount of funds permitted to be transferred out of England, has been taken down. Thus, the company has been more or less forced to embark upon a program of debt reduction out of income which is becoming an increasingly important item in the reduction of operating costs. The company's fiscal year ends August 30 and accordingly,

until the end of the present quarter results have been released, it is not possible to give any real estimate of the year's earnings. In the first quarter of the present period which ended on November 30, the company reported profits equal to \$0.31 a share, compared with \$0.14 a share in the same three months of 1939. Results for the second quarter period which ended with the close of February have not as yet been made public, but since they include the best part of the year for theatrical business, they probably were larger than in the November period and also moderately higher than a year ago.

A more important indication of the improvement in the financial position of Warner Brothers is that dividend payments have been resumed on the preferred shares after a lapse in 1932. These payments were started again with a \$0.96 $\frac{1}{4}$  per share distribution made on March 1st, last and another similar amount will be paid on June 2. Both of these payments were on account of arrears which were approximately \$34 a share at the beginning of December. Until these arrearages have been paid off or otherwise satisfied, there is no possibility of a common distribution. However, the betterment in the company's financial position makes refunding of this obligation more feasible than it would have been some years back.

Warner Brothers has a few current picture successes which include "Santa Fe Trail" and "Strawberry Blonde" and others are said to be on the way. On the whole, the outlook for the motion picture industry in this country is reasonably good and from domestic operations, at least, the companies, including Warner Brothers, should make a good earnings showing.

#### Sutherland Paper Company



The first quarter earnings of Sutherland Paper typifies the paper industry and its problems. The company is operating at a high rate of production volume and there is a strong demand for the company's products. But, since most of these products are sold upon a reasonably long term contract basis, unexpectedly added taxes and other increased costs must be

absorbed until the time arrives for a new contract. Since most of the company's supplies are purchased in the same manner as they are sold, Sutherland Paper has not been suffering from higher material costs but taxes and rising labor costs have held net income in check.

Earnings for the first quarter of 1941 were \$0.51 a share after deduction of Federal income tax reserves and other charges. This compared with \$0.70 a share in the same period of 1940. A small part of the reduction may have been attributable to the fact that the company last year sold \$900,000 of bonds to retire \$500,000 in bank debt and for other corporate purposes but the largest part of the reduction was attributable to increased taxes which in 1940 were more than double those of the previous year. Such taxes (Please turn to page 210)

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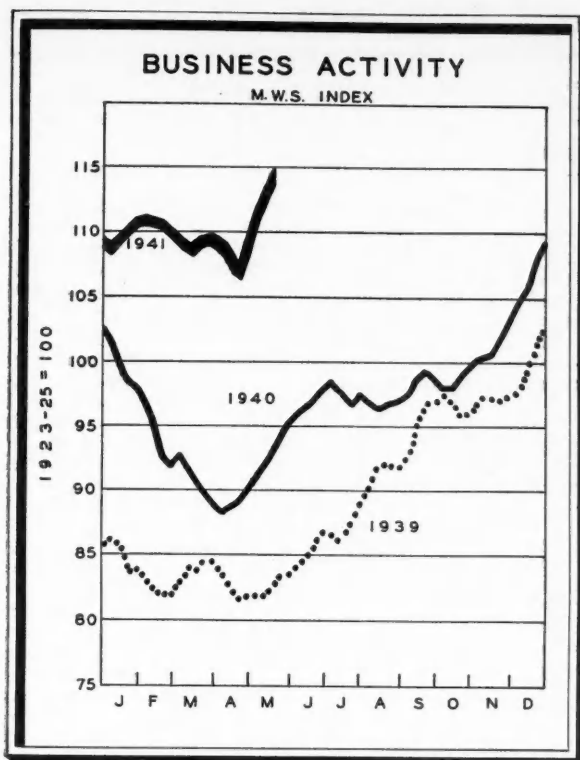
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## CONCLUSIONS

**INDUSTRY**—Per capita business activity reaches new all-time high.

**TRADE**—Prospective shortages spur demand for consumer durable goods. Sales of nondurable goods rise with expanding payrolls.

**COMMODITIES** — Prices advance along broad front, with notable exceptions of nonferrous metals.

**MONEY AND CREDIT**—Gold imports shrink to level of new production, but demand deposits are now 20% above last year.

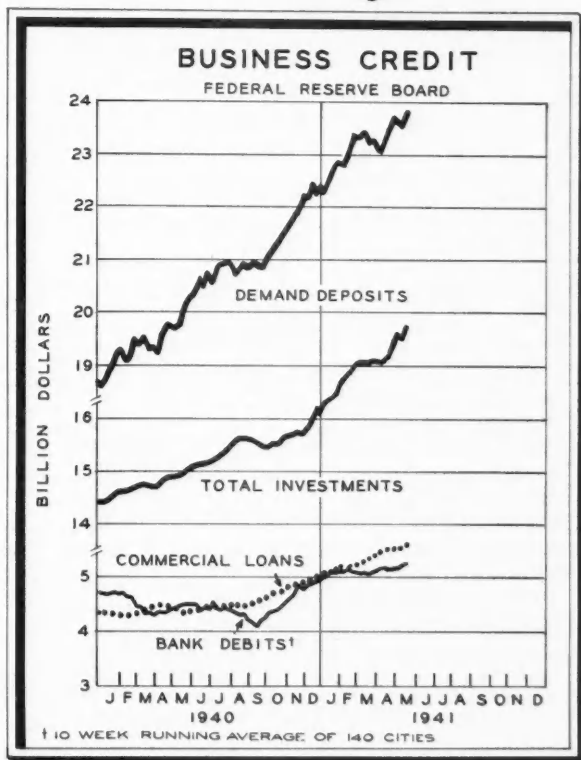
# The Business Analyst

With the reopening of additional coal mines and resumption of production at the Ford Motor Company's plants, per capita **Business Activity** has risen to a new all-time high. During the month of April, strikes caused a mild sag in per capita Business Activity to around 107.5% of the 1923-5 average, from 108.9 in March, but April activity was still 20.7% above the like month of 1940. Without adjustment for population growth, the Index averaged 125 in April, against 127 for March and 104 during April of 1940. According to the National City Bank, net profits above taxes reported by 345 industrial corporations for the first quarter gained 2% over the fourth quarter of 1940 and averaged 17.5% higher than for the first quarter a year earlier—a slightly better increase than the improvement of 16.8% shown by this publication's index of general Business Activity.

\* \* \*

Despite a disposition to conserve cash, Dividends declared during April were 9% more liberal than for the like period a year earlier, compared with a four-months' increase of only 6%. **Income Payments** in March were at the annual rate of \$80 billions, with a per capita purchasing power 9% greater than for the like month of the boom year, 1929. According to the National Industrial Conference Board,

(Continued on next page)



# Business and Industry

	Date	Latest Month	Previous Month	Last Year
<b>INDUSTRIAL PRODUCTION (a)</b>	April	138	143	111
<b>INDEX OF PRODUCTION AND TRADE (b)</b>	April	103	104	87
Production	April	106	106	86
Durable Goods	April	108	107	74
Non-durable Goods	April	104	106	93
Primary Distribution	April	95	98	82
Distribution to Consumers	April	104	103	92
Miscellaneous Services	April	99	98	88
<b>WHOLESALE PRICES (h)</b>	Apr.	82.8	81.3	78.6
<b>INVENTORIES (n. i. c. b.)</b>				
Inventories	Mar.	131.5	131.6	115.3
New Orders	Mar.	237	231	107
Shipments	Mar.	165	170	108
<b>COST OF LIVING (d)</b>				
All Items	April	86.9	86.3	85.0
Food	April	81.0	79.2	77.4
Housing	April	87.8	87.7	86.7
Clothing	April	73.3	73.2	73.2
Fuel and Light	April	86.4	86.4	85.4
Sundries	April	98.3	98.3	97.0
Purchasing value of dollar	April	115.1	115.9	116.4
<b>NATIONAL INCOME (cm)†</b>	Mar.	\$6,785	\$6,145	\$6,553
<b>CASH FARM INCOME†</b>				
Farm Marketing	Mar.	\$617	\$550	\$537
Including Gov't Payments	Mar.	688	632	604
Total, First 4 Months	Mar.	2,074	.....	1,990
Prices Received by Farmers (ee)	April	110	103	98
Prices Paid by Farmers (ee)	April	124	123	123
Ratio: Prices Received to Prices Paid (ee)	April	89	84	80
<b>FACTORY EMPLOYMENT (f)</b>				
Durable Goods	Mar.	123.5	121.0	95.9
Non-durable Goods	Mar.	116.4	114.7	104.8
<b>FACTORY PAYROLLS (f)</b>	Mar.	131.0	126.9	98.2
<b>RETAIL TRADE</b>				
Department Store Sales (f)	April	103	103	89
Chain Store Sales (g)	April	132	128.5	115
Variety Store Sales (g)	April	136	132	119
Rural Retail Sales (j)	April	165.1	148.9	125.4
Retail Prices (s) as of	May	98.9	98.9	92.8
<b>FOREIGN TRADE</b>				
Merchandise Exports†	Mar.	\$358	\$303	\$325
Cumulative year's total† to	Mar. 31	986	.....	1,069
Merchandise Imports†	Mar.	268	234	212
Cumulative year's total† to	Mar. 31	731	.....	871
<b>RAILROAD EARNINGS</b>				
Total Operating Revenues*	Mar.	\$416,319	.....	\$327,132
Total Operating Expenditures*	Mar.	283,329	.....	248,635
Taxes*	Mar.	41,474	.....	30,553
Net Rwy. Operating Income*	Mar.	80,627	.....	37,034
Operating Ratio %	Mar.	68.06	.....	76.00
<b>BUILDING Contract Awards (k).</b>	April	\$407	\$480	\$301
<b>F. H. A. Mortgages</b>				
Selected for Appraisal†	April	151	138	128
Accepted for Insurance†	April	88	76	77
Premium Paying†	April	60	62	48
<b>Building Permits (c)</b>				
214 Cities†	April	125	121	98
New York City†	April	17	17	25
Total, U. S.†	April	142	138	123
<b>Engineering Contracts (En)†</b>	April	\$382	\$453	\$212

## PRESENT POSITION AND OUTLOOK

(Continued from page 199)

**unemployment** dropped to 6,142,000 in March—3,000,000 lower than a year earlier. Excluding 2,472,000 engaged in Federal emergency work (WPA, CCC, etc.) the number of jobless during March numbered only 3,670,000.

\* \* \*

The "all out" defense program is inexorably leading to labor and material shortages, and to congestion in transportation by both water and rail, which will unavoidably raise costs and prices to the accompaniment of numerous dislocations in production and profits. For the time being, consumer durable goods are booming in anticipation of curtailed supply and higher prices later; but defense needs are bound to encroach more and more upon the output of postponable civilian goods. Ahead lies a vicious spiral of rising wages and living costs, with recurring strikes. Of course the ideal solution to the inflation menace would be increased production of consumer goods; but this calls for material and labor not obtainable because of conflict with prior needs for defense. Sharply higher prices for farm staples consequent upon recent "parity" legislation have been in large measure responsible for a brisk advance in this publication's index of **raw material prices** to the highest level since 1937, and an advance to 7% above last year in **wholesale prices**. **Retail prices**, which always lag behind, are 3.5% above last year with the **cost of living** up only 2.2%.

\* \* \*

The National Industrial Conference Board reports that **new orders** booked by manufacturers during March were 2.5% ahead of February and 121% above last year, yet **inventories** were up only 14%. **Department store sales** in the week ended May 10 were 13% ahead of last year, against a four-weeks' rise of 16% and a gain of 14% for the year to date. Merchandise **exports** during March were 2% above the like period last year, compared with an 8% decline for the first quarter. Exports of military equipment in March totaled \$57 millions, a rise of \$38 millions over March of 1940.

\* \* \*

Fast expanding defense production and diversion of coastal ships into trans-ocean service promise to overtax **railroad** transportation facilities. **Carloadings** estimates have consequently been raised to 43,680,000 for 1942 and 48,000,000 for 1943, compared with around 40,000,000 for the current year and only 36,353,609 last year. Despite higher wages and taxes, Class I carriers should earn at least twice as much this year as last.

\* \* \*

While **residential building** may have to be curtailed later, owing to material shortages, **engineering construction** should continue to boom. **Rents** average 1.3% above last year—up 40% from the January, 1934, depression low and only 4.7% below April, 1929.

	Date	Latest Month	Previous Month	Last Year	PRESENT POSITION AND OUTLOOK
<b>STEEL</b>					
Ingot Production in tons*	April	6,758	6,238	4,100	With domestic retail sales running about 30% above last year, <b>automobile</b> production will continue at an exceptionally high rate up to August 1 to stock dealers in anticipation of the drastic cut in output which will be necessitated after that date. Ford is now on a six-day week to make up for time lost by the strike. Recent wage increases and heavier taxes will probably necessitate higher prices on 1942 models.
Pig Iron Production in tons*	April	4,334	4,704	3,137	
Shipments, U. S. Steel in tons*	April	1,688	1,720	908	
<b>AUTOMOBILES</b>					
Production					* * *
Factory Sales	April	577,192	525,000	411,277	
Total 1st 4 Months	1941	1,875,817	.....	1,581,889	
<b>Automobile Financing</b>					
Retail	Mar.	202,793	158,693	143,483	On May first, Class I railroads had approximately 1,680,000 <b>freight cars</b> in service and 56,000 on order—the largest backlog in 16 years. It is believed that an additional 120,000 will be needed to move 1942 traffic and another 150,000 to meet the 1943 autumn peak. A total of around 97,000 will be completed this year if builders can obtain enough steel, which now seems doubtful. Current quarter will show rising profits.
Wholesale	Mar.	270,487	248,288	212,331	
<b>PAPER (Newsprint)</b>					
Production, U. S. & Canada* (tons)	April	367	363	355	* * *
Shipments, U. S. & Canada* (tons)	April	377	351	353	
Mill Stocks, U. S. & Canada* (tons)	April	195	205	231	
<b>LIQUOR (Whisky)</b>					
Production, Gals.*	Mar.	12,602	12,658	10,588	* * *
Withdrawn, Gals.*	Mar.	6,637	5,834	6,461	
Stocks, Gals.*	Mar.	495,735	491,301	473,278	
<b>GENERAL</b>					
Paperboard, new orders (st)	Mar.	543,988	470,671	392,794	Machine tool shipments for the first four months were valued at \$220,000,000—about double the volume for the like period last year. Annual production capacity is expected to reach \$800,000,000 by the end of the year, and even greater output may be required next year to meet fast expanding defense needs. <b>Shoe</b> prices are up 5% to 10%.
Railway Equipment Orders (Ry)					
Locomotive	April	52	119	50	
Freight Cars	April	16,091	7,685	1,812	* * *
Cigarette Production†	April	15,854	15,529	14,820	
Bituminous Coal Production* (tons)	Mar.	48,250	41,695	35,244	
Portland Cement Shipments* (bbls.)	Mar.	10,056	7,472	7,716	* * *
Commercial Failures (c)	Mar.	1,211	1,129	1,197	

### WEEKLY INDICATORS

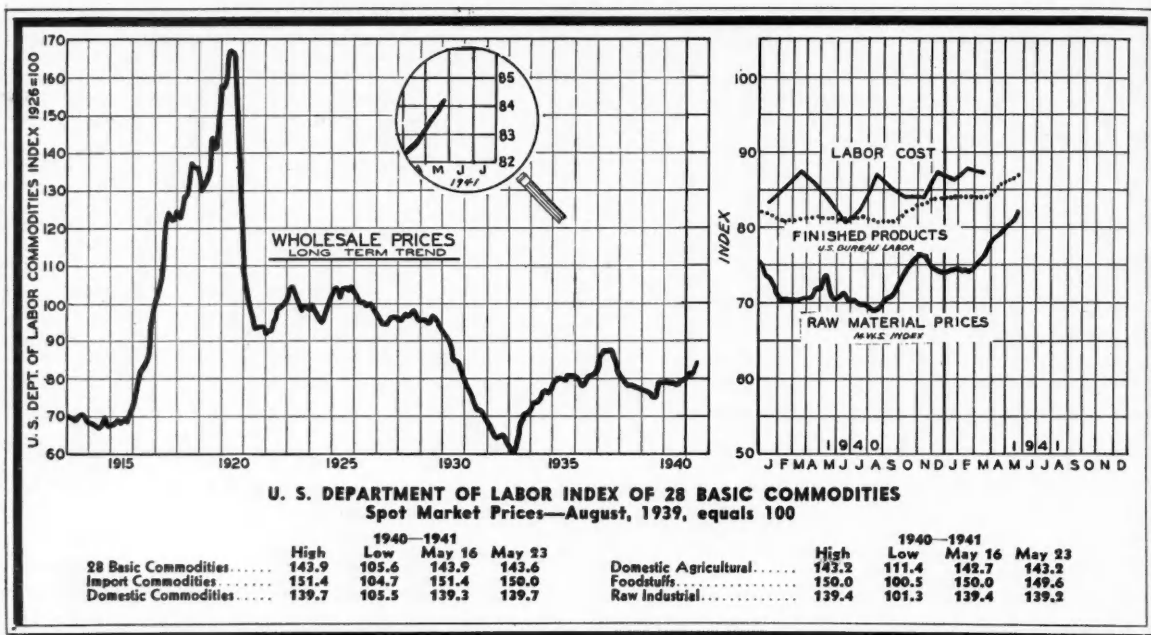
	Date	Latest Week	Previous Week	Year Ago	PRESENT POSITION AND OUTLOOK
<b>M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100</b>					Though gross income of the first 14 <b>public utilities</b> to report showed an average gain of 5.4% over the like period last year, increases of 22.2% in taxes, 7% in depreciation charges and 3.3% in operating expenses, resulted in a decrease of 0.77% in net. Net varied widely, however—from the 30% increase reported by Niagara Hudson to a 28% decrease shown by Columbia Gas & Electric. Taxes this year took 19.3% of gross, against only 16.7% in the first quarter of 1940. The RFC announces that it will put in competitive bids on future issues of Utility securities if other bids are not considered "fair."
	May 17	114.9	113.3	92.9	
<b>ELECTRIC POWER OUTPUT</b>					
K.W.H.†	May 17	2,798	2,792	2,422	
<b>TRANSPORTATION</b>					* * *
Carloadings, total	May 17	861,277	837,149	678,971	
Grain	May 17	38,905	35,118	30,754	
Coal	May 17	147,454	139,058	112,632	
Forest Products	May 17	41,342	40,567	34,777	
Manufacturing & Miscellaneous	May 17	368,401	356,073	282,672	Government economists, forecasting a national income of \$100 billions for next year, estimate <b>steel</b> requirements at 120,000,000 tons. If correct, this means strict priorities or a 20,000,000-ton expansion in production capacity. Meanwhile, higher cost producers may be permitted to raise prices a little. Earnings in the first quarter averaged more than twice as large as reported by the industry for the like period last year, and should remain satisfactory for the "duration," despite higher wages and taxes.
L. C. L. Mdse	May 17	162,519	162,887	148,916	
<b>STEEL PRICES</b>					
Pig Iron \$ per ton (m)	May 20	23.61	23.61	22.61	
Scrap \$ per ton (m)	May 20	19.17	19.17	17.92	* * *
Finished c per lb. (m)	May 20	2.261	2.261	2.261	
<b>STEEL OPERATIONS</b>					Earnings outlook for the <b>oil</b> industry is improving rapidly under expanding demand at rising prices.
% of Capacity week ended (m)	May 24	101.0	100.0	74.0	
<b>CAPITAL GOODS ACTIVITY (m) week ended</b>					
	May 17	111.8	109.4	76.7	
<b>PETROLEUM</b>					
Average Daily Production bbls.*	May 17	3,784	3,756	3,601	
Crude Runs to Stills Avge. bbls.*	May 17	3,805	3,821	3,607	
Total Gasoline Stocks bbls.*	May 17	94,867	95,703	102,167	
Fuel Oil Stocks bbls.*	May 17	93,987	94,407	102,785	
Crude—Mid-Cont. \$ per bbl	May 23	1.17	1.07	1.02	
Crude—Pennsylvania \$ per bbl	May 23	2.03	1.88	1.98	
Gasoline—Refinery \$ per gal.	May 23	.073¼	.073¼	.06¼	

†—Millions. \*—Thousands. (a)—Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (En)—Engineering News-Record. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U. S. B. L. S. 1926—100. (i)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp. (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1935-39—100. (p)—Polk estimates. (pc)—Per cent of capacity. (pl)—Preliminary. (r)—Revised. (Ry)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st)—Short tons.

## Trend of Commodities

Although commodity prices reacted somewhat during the later part of last week, the reaction followed the establishment of the highest prices this year. Moody's index, for example, recorded a gain of 25 points from the lows of last February, and an over-all gain of 40 points by comparison with a year ago. While it is true, of course, that a substantial portion of these gains has been contributed by import commodities and domestic farm products, both of which groups have been subjected to special influences, there is no gain-

saying the presence of rather obvious inflationary elements in the background. Living costs are rising on the one hand, while on the other individual consumers under the impression that shortages will exist in a few months are indulging in a veritable buying spree. The resulting pressure on the price structure is irresistible and while the Administration has repeatedly stressed its intention to hold prices in check, it is open to doubt as to whether or not the existing machinery for that purpose is adequate.



Date      Latest  
Wk. or Mo.      Previous  
Wk. or Mo.      Year  
Ago

## PRESENT POSITION AND OUTLOOK

### COTTON

Price cents per pound, closing

June.....	May 24	13.22	13.00	9.67
July.....	May 24	13.20	12.90	9.13
Spot.....	May 24	13.61	13.33	10.41
(In bales 000's)				
Consumption, U. S.....	April	920	854	623
Exports, wk. end.....	May 23	5.8	13.7	32.4
Total Exports, season Aug. 1 to.....	May 23	802.7	777.8	5,704.3
Government Crop Est. (final).....	1940	12,686	.....	11,817(ac)
Active Spindles (000's).....	Mar.	22,796	22,769	22,553

**Cotton.** Although cotton prices failed to hold their maximum gains, net advances for the most recent week ranged from 18 to 28 points. Several factors contributed to higher prices. Reports were current that the President would sign the legislation providing for cotton loans at 85 per cent of parity. Moreover, it was reported that the Senate had approved the Smith bill carrying provision for the Commodity Credit Corp., to acquire title to all loan cotton and "freeze" it for the duration of the war. Earlier in the week speculative enthusiasm was dampened by the decision of OPACS to place a ceiling on combed cotton yarn prices well below the market.

\* \* \*

### WHEAT

Price cents per bu. Chi. closing

July.....	Mar. 24	97¾	97¼	84⅞
Sept.....	Mar. 24	99	98¼	84¾
Exports bu. (000's) since July 1 to.....	May 17	142,043	.....	132,023
Exports bu. (000's) wk. end.....	May 17	8,785	7,728	5,004
Visible Supply bu. (000's) as of.....	May 17	116,892	116,933	98,959
Gov't Crop Est. bu. (winter) (000's).....	Dec. 1	2,449,523	.....	2,619,317(ac)

**Wheat.** Unfavorable war news found wheat prices vulnerable, the decline was brief and at the week's close prices had fully recovered to end steady to somewhat higher. Despite talk of price-fixing legislation and extremely favorable crop reports, trading attention remained centered on Washington and official hints that President Roosevelt would approve the bill providing for crop loans at 85 per cent of parity. Winter crop promises to be much larger than last year and the Spring crop is off to an excellent start.

### CORN

Price cents per bu. Chi. closing

July.....	May 24	73⅞	72¾	63⅞
Sept.....	May 24	75¼	74	625
Exports bu. (000's) since July 1 to.....	May 17	21,779	21,779	26,020
Visible Supply bu. (000's) as of.....	May 17	57,415	57,561	29,865
Gov't Crop Est. bu. (000's) (final).....	1940	2,449,523	.....	2,619,317(ac)

Latest Previous  
Date Wk. or Mo. Wk. or Mo. Year  
Ago

# PRESENT POSITION AND OUTLOOK

## COPPER

Price cents per lb.				
Domestic.....	May 24	12½	12½	11.25
Export f. a. s. N. Y.....	May 24	11.25	11.25	11.25
Refined Prod., Domestic*.....	April	88,659	95,322	80,964
Refined Del., Domestic*.....	April	123,580	134,333	68,665
Refined Stocks, Domestic*.....	April	97,761	89,873	169,120
Copper Sales, Domestic*.....	May 22	15,733	19,119	10,701

## TIN

Price cents per lb. N. Y.....	May 24	52¼	52¾	53.00
Tin Plate, price \$ per box.....	May 24	5.00	5.00	5.00
World Visible Supply† as of.....	Mar. 31	39,971	44,107	32,339
U. S. Deliveries†.....	Mar.	16,092	12,195	9,244
U. S. Visible Supply† as of.....	Mar. 31	5,195	7,489	2,635

## LEAD

Price cents per lb., N. Y.....	May 24	5.85-90	5.85-90	5.00
U. S. Production*.....	April	56,086	61,503	35,323
U. S. Shipments*.....	April	59,169	62,090	46,563
Stocks (tons) U. S., as of.....	April	42,899	45,996	63,461

## ZINC

Price cents per lb. St. Louis.....	May 24	7.25	7.25	6.00
U. S. Production*.....	Mar.	63,366	56,334	57,620
U. S. Shipments*.....	Mar.	63,483	59,220	51,095
Stocks U. S., as of*.....	Mar.	6,969	7,086	73,611

## SILK

Price \$ per lb. Japan xx crack.....	May 24	2.94	2.91	2.80½
Mill Dels. U. S. (bales).....	April	23,538	25,828	21,740
Visible Stocks N. Y. (bales) as of.....	April	49,373	49,904	42,698

## RAYON (Yarn)

Price cents per lb.....	May 24	53	53	53
Consumption (a).....	April	38.7	35.4	30.7
Stocks as of (a).....	April 30	7.3	10.2	11.6

## WOOL

Price cents per lb. fine Boston.....	May 24	1.02	1.02	94
Consumption, period ending (a).....	Mar.	38,672	36,232	17,708

## HIDES

Price cents per lb. No. 1 Packer.....	May 24	.17	.16½	.10½
Visible Stocks (000's) as of.....	Mar. 31	13,256	.....	13,647
No. of Mos. Supply as of.....	Mar. 31	604	.....	6.49
Boot and Shoe Production, Prs.*.....	Mar.	38,000	42,413	35,287

## RUBBER

Price cents per lb.....	May 24	23.00	24.75	20.50
Imports, U. S.†.....	April	63,305	87,123	70,700
Consumption, U. S.†.....	April	71,374	69,024	52,361
Stocks U. S. as of.....	April	35,336	35,028	26,492
Tire Production (000's).....	April	5,183	5,686	5,092
Tire Shipments (000's).....	April	6,050	5,529	5,010
Tire Inventory (000's) as of.....	April	9,958	10,149	10,867

## COCOA

Price cents per lb.....	May 24	7.25	8.07	4.61
Arrivals (bags 000's).....	April	468	563	212
Warehouse Stocks (bags 000's).....	May 23	1,379	1,360	1,042

## COFFEE

Price cents per lb. (c).....	May 24	10½-11½	11	7¼
Imports, season to (bags 000's).....	May 1	14,506	.....	11,569
U. S. Visible Supply (bags 000's).....	May 1	2,823	2,895	1,362

## SUGAR

Price cents per lb.				
Raw.....	May 24	3.33	3.38	2.75
Refined (Immediate Shipment).....	May 24	4.95	5.10	4.50
U. S. Deliveries (000's)*.....	April	587	1,030	579
U. S. Stocks (000's)* as of (nr).....	April	933	479	1,033

**Copper.** There have been no significant developments involving copper over the past fortnight. It was officially stated that copper purchased by the Metals Reserve Corp. in Latin-America was coming along, but that difficulty in obtaining ship bottoms might create something of a squeeze this summer. Any decision on the matter of copper priorities should have been impossible sometime ago.

**Tin.** Prices eased moderately, although buying demand for both May and June arrivals was active. Supplies of Chinese tin have dropped below 200 tons, indicating that users of this type tin will be compelled to find a suitable substitute.

**Lead.** Domestic shipments of refined lead in April declined 2,921 tons. Despite this drop in shipments, refined lead stocks were 3,097 tons lower and production was down 5,417. Demand continues active, with all types of consumers well represented.

**Zinc.** A meeting of OPM officials and representatives of leading zinc producers in Washington last week brought forth no announcement of importance and it is not known whether or not any decision was made as to June pool percentages. It is to be doubted that any drastic action is contemplated.

**Silk.** Market activity has been restricted, but prices have ruled firm. Efforts to stem speculative activity in other commodities failed to have any apparent effect upon the silk market.

**Wool.** Market interest, on the whole, was dull and sales of both wool tops and grease wool were substantially under the levels of recent weeks. Prices eased moderately.

**Hides.** Spokesman for the Tanners Council warned against too heavy anticipatory buying. This type of buying has placed a considerable strain on supplies and accumulated inventories are considerably in excess of any demand likely to develop in the near future.

**Rubber.** Prices were practically unaffected by the increase in margin requirements to \$1,200 on original contracts, other than hedging transaction. On the basis of present prices the new margin figure represents about 25 per cent of total contract costs.

**Cocoa.** Although prices receded under the pressure of liquidation generated by fears that trading rule would be tightened, by the close of the week a sharp rally occurred and for the week a net gain of 7 to 8 points was shown.

**Coffee.** Margin requirements were increased to \$625 per contract from the previous figure of \$250. This move was without noticeable effect insofar as prices were concerned, doubtless because of the comparatively small speculative interest in coffee futures.

**Sugar.** Prices of refined were lowered for the first time in ten months. Raw prices were unaffected by the statement of the House agriculture committee that the country is threatened with a sugar shortage.

†—Long tons. \*—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. (p)—Preliminary. (nr)—Raw and refined. ★—Thousands. NA—Not available.

# Money and Banking

	Date	Latest Week	Previous Week	Year Ago	COMMENT
<b>INTEREST RATES</b>					
Time Money (60-90 days).....	May 24	1 1/4%	1 1/4%	1 1/4%	Commercial borrowing continues to pursue an upward course. The latest statement of <b>New York City Member Banks</b> revealed a gain of \$22,000,000 for the week, bringing the total up to the highest level in about ten years. The total is now \$242,000,000 above the level at which the rise started, and gains were shown in every week but two since the rise started. Normally this would be the season when borrowings by commerce, industry and agriculture would recede.
Prime Commercial Paper.....	May 24	1/2-3/4%	1/2-3/4%	1/2-3/4%	
Call Money.....	May 24	1%	1%	1%	
Re-discount Rate, N. Y.....	May 24	1%	1%	1%	
<b>CREDIT</b> (millions of \$)					
Bank Clearings (outside N. Y.).....	May 17	3,497	3,035	2,970	Currency in circulation likewise has failed to conform with the normal pattern. Since January 22, currency in circulation has risen in every week but one, for a net gain of \$645,000,000.
Cumulative year's total to.....	Apr. 30	14,747	.....	12,100	
Bank Clearings, N. Y.....	May 17	3,266	2,901	3,337	
Cumulative year's total to.....	Apr. 30	15,231	.....	13,937	
<b>F. R. Member Banks</b>					
Loans and investments.....	May 14	27,742	27,601	23,592	Demand deposits of New York banks in the latest week increased \$276,000,000 to a new high at \$11,181,000,000.
Commercial, Agr., Ind. Loans....	May 14	5,604	5,568	4,414	
Brokers Loans.....	May 14	445	444	602	
Invest. in U. S. Govts.....	May 14	10,952	10,910	9,082	
Invest. in Govt. Gtd. Securities....	May 14	3,137	3,111	2,387	Excess reserves increased last week and stood at the highest level for the past five weeks. The gain reflected a substantial reduction in the Treasury's deposit balance, together with an increase of \$27,000,000 in gold stocks.
Other Securities.....	May 14	3,700	3,688	3,480	
Demand Deposits.....	May 14	23,846	23,616	19,928	
Time Deposits.....	May 14	419	5,440	5,315	
<b>New York City Member Banks</b>					
Total Loans and Invest.....	May 21	11,635	11,616	9,165	Terms of the latest Treasury financing were generally regarded as being somewhat more generous than had been previously expected. Apparently the Treasury, confronted with an exchange involving \$834,000,000 of maturing obligations and the necessity of raising \$600,000,000 in new money, was anxious to assure the success of the financing. "When issued" prices indicated that there was no doubt whatsoever as to the success of the offering, and it was estimated that the new money bonds would be oversubscribed twelve to fifteen times.
Comm'l Ind. and Agr. Loans....	May 21	2,149	2,127	1,671	
Brokers Loans.....	May 21	332	318	403	
Invest. U. S. Govts.....	May 21	5,140	5,163	3,767	
Invest. in Gov't Gtd. Securities....	May 21	1,733	1,820	1,268	* * *
Other Securities.....	May 21	1,435	1,382	1,261	
Demand Deposits.....	May 21	11,181	10,905	9,332	
Time Deposits.....	May 21	724	727	657	
<b>Federal Reserve Banks</b>					
Member Bank Reserve Balance...	May 21	13,732	13,458	13,223	
Money in Circulation.....	May 21	9,186	9,155	7,613	
Gold Stock.....	May 21	22,565	22,538	19,071	
Treasury Currency.....	May 21	3,131	3,129	3,007	
Treasury Cash.....	May 21	2,280	2,283	2,204	
Excess Reserves.....	May 21	5,860	5,690	6,370	
<b>NEW FINANCING</b> (millions of \$)					
		Latest Month	Previous Month	Year Ago	
Corporate.....	Apr.	148	203	246	
New Capital.....	Apr.	40	86	54	
Refunding.....	Apr.	108	111	192	

## THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Close=100)	1941 Indexes				1941 Indexes				
	May 3	May 10	May 17	May 24	(Nov. 14, 1936, Close=100)	May 3	May 10	May 17	May 24
290 COMBINED AVERAGE ..	47.0	48.6	47.2	47.4	100 HIGH PRICED STOCKS ..	51.23	52.69	51.56	51.80
					100 LOW PRICED STOCKS....	38.11	39.93	38.36	38.55
4 Agricultural Implements ..	74.3	78.0	77.5	80.0	3 Liquor (1932 Cl.—100)....	112.4	111.5x	117.2	115.8
9 Aircraft (1927 Cl.—100)...	146.3	152.7	144.4	147.9	9 Machinery.....	88.8	90.9	89.5	89.2
4 Air Lines (1934 Cl.—100)...	213.6	205.1	198.9L	208.5	2 Mail Order.....	64.3x	65.0	65.4	65.8
6 Amusements.....	21.2	22.2	21.3	20.8x	4 Meat Packing.....	40.7	41.7	40.7	42.0
14 Automobile Accessories ..	75.9	78.7	76.0	77.3	11 Metals, non-Ferous.....	109.5x	115.6	110.5	112.5
13 Automobiles.....	7.8	8.1	7.6	7.5	3 Paper.....	11.1	12.0	11.4	11.6
3 Baking (1926 Cl.—100)....	8.3	8.7	8.9	8.6	21 Petroleum.....	77.3	80.5h	78.4	79.1
3 Business Machines.....	88.2	89.8	86.5x	88.9	18 Public Utilities.....	25.0	24.8	24.5	23.6d
2 Bus Lines (1926 Cl.—100)...	46.2	46.6	45.4	43.9b	3 Radio (1927 Cl.—100)....	7.2	7.4	6.7f	6.8
8 Chemicals.....	136.4	138.8	137.3	139.1	9 Railroad Equipment.....	37.7	40.1	38.2	38.9
18 Construction.....	20.0	20.9	20.1	20.5	17 Railroads.....	8.7	9.4h	8.7	8.5
5 Containers.....	169.3	169.5	168.9	166.6L	2 Realty.....	1.8	1.7	1.7	1.8
10 Copper & Brass.....	68.8	75.2	74.1	74.7	2 Shipbuilding.....	108.6	113.8	107.4	101.5x
2 Dairy Products.....	25.9	26.3	25.6	25.7	12 Steel & Iron.....	65.7	67.3	64.5	65.5
6 Department Stores.....	17.0	18.0	17.6	17.6	2 Sugar.....	21.3	22.4	22.6	22.3
6 Drugs & Toilet Articles....	31.4	32.0	31.7	32.2	2 Sulphur.....	166.5	171.3	166.3	167.5
2 Finance Companies.....	150.1	143.9	134.8e	137.8	3 Telephone & Telegraph....	33.2x	35.6	34.4	35.8
7 Food Brands.....	75.9	75.8	75.6	76.5	2 Textiles.....	35.3	36.6	34.8	33.0L
2 Food Stores.....	37.6	38.4	38.3	38.3	2 Tires & Rubber.....	10.2	10.7	10.1	10.1
4 Furniture.....	33.7	34.4	34.4	33.9	4 Tobacco.....	64.6	63.2	62.1f	62.1
2 Gold Mining.....	609.8	621.5	604.6	600.7x	3 Variety Stores.....	185.0x	186.6	188.2	185.6
6 Investment Trusts.....	15.3	16.0	15.5	15.6	19 Unclassified (1940 Cl.—100)	86.3x	89.1	87.3	87.6

b—New LOW since 1937. d—New LOW since 1935. e—New LOW since 1934. f—New LOW since 1933. h—New HIGH this year. L—New LOW since 1939. x—New LOW this year.

# Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities*.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope*.
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

## Cutler-Hammer, Inc.

*I am worried about my 200 shares of Cutler-Hammer. I paid 22 for this investment last year. While I realize the Company has huge backlogs and sales for the first quarter were 50% larger than the same period in 1940—earnings per share as of March 21 were only 4 cents greater than for the 3 months ending March 31, 1940. Taxes, I imagine, is the answer . . . or are their other reasons? Should it be assumed that the same disproportionate relationship between sales and net profit will exist over the balance of this year? Would you say that 1940 will be the peak sales year for Cutler-Hammer . . . with a decline in sales to follow in years thereafter? I have in mind the possibility of a marked decrease in demand from such of its customers as the machine tool makers after the first rush of "tooling up" for defense passes this year as expected. Or do you think the industrial demand . . . and requirements of the shipbuilding, textile, paper and other basic industries will continue for some time at peak levels? Would you kindly give me your definite opinion of the appreciation possibilities of the stock now?—and the advisability of holding in the face of further decline (the stock has already made a new low for 1941).—A. A., Syracuse, New York.*

Cutler-Hammer, Inc., holds a commanding position in the field of electrical equipment, manufacturing control-devices such as motor starters, steam regulators, heat regulators, magnetic clutches and brakes, switch-boxes, wiring devices and a host of related products. Being the largest manufacturer of electrical control devices, the company's prod-

ucts are well accepted throughout the capital goods industries. Competition remains keen in the industry but since it is not too severe adequate profit margins are possible during periods of good business activity. In the first quarter of 1941, the company earned 65 cents per common share as against 61 cents for the comparable period of 1940. For the year 1940, \$1.94 per share was earned on the common stock as against \$1.23 in 1939, and a loss of 46 cents per share in 1938. Earnings have fluctuated rather widely in recent years, caused in part by the small capitalization of the company. There is no funded debt or preferred stock outstanding, sole capitalization being represented by 659,998 shares of no par common stock. Financial position at the close of the year was favorable, with \$5,633,660 of total current assets as compared to total current liabilities of \$1,606,771. Inventories at lower of cost or market were carried at \$2,760,846.

It is our belief that the operations of this company have not reached its peak in view of the continued in-

crease in production, expansion of facilities, modernization of equipment, electrification of railroads and stepping up of industry to a full tempo to meet the ever increasing demand brought about by virtual capacity operations for business as a whole and the requirements of our war emergency. The greater the tempo, the higher the output, all tending to increase the replacement needs of industry and consequently the suppliers of equipment, such as Cutler-Hammer are expected to continue to operate profitably. On an average earnings base, the estimated excess profits tax credit approximates \$1.22 per share, while on an invested capital base, it approximates 97 cents per share. While earnings are currently running above these figures, it is expected that profit margins will remain at least comparable with the possibility that with volume production other operating economies may be possible, thereby increasing and improving the near term outlook for this company. It must be borne in mind, however, that earnings have fluctuated rather widely in recent years, going from deficits to substantial profits caused in part by the fluctuating trend of business in general. It is believed that the company will continue the liberal dividend policy and that current stockholders will be accorded favorable treatment in the future. While the shares do not enjoy volatile market performance, it is believed that barring excessive tax burdens, that earnings will increase over those shown in 1940 lending somewhat to improve values for the common stock. Consequently we feel that your commitment in

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Prepaid and Instruct Us to Answer Collect.**

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Cutler-Hammer, Inc., is worthy of retention at this time.

### Atlantic Refining Co.

*As a stockholder in Atlantic Refining at a time when the oils are being rumored to be in line for an exceptional year, I am anxious for your advice. I hold 150 shares for which I paid \$6. I would seriously consider additional purchases at market for averaging purposes, given some reasonable assurance of Atlantic's prospects. Are earnings at present above 1940 levels? Is the price position of gas and crude more favorable than last year? How is the Company benefitting from Spring motor car activity? Is the Company's program for "Super-Aviation Gasoline" the biggest factor enhancing the prospect for this stock? How far has this program progressed? How large a share of industrial business is Atlantic receiving now? Do your analysts see a tremendous spurt in export demand from Great Britain now that near East fields are in danger? I keep in the back of my head the fact that this stock sold near 80 . . . and don't want to be missing an opportunity. Please advise.—O. H., St. Louis, Mo.*

In the first three months of 1941 Atlantic Refining Co. earned 98 cents per common share as against \$1.12 for the comparable period of 1940. For the year 1940 the company earned \$2.11 against \$1.66 per share in the year 1939. Taxes, however, on a per share basis increased during the year 1940 from \$2.08 to \$2.68 per common share. During the year 1940, domestic demand for the products of this company rose by approximately 9% and more than offset the 36.3% decline in exports (from 13% to 8% of total business) to net an overall increase of slightly more than 3%. The reason for the large decline in export volume and its rate which was in excess of the 34% decline for the entire industry is brought out by the fact that the overseas market for this company is relatively more important than in other companies in the field. A reserve of \$2,342,000 was set up against possible ultimate losses principally in Belgium, France and North Africa where the control of businesses and properties has been assumed by the new military and political authorities in those countries. As of December 31, 1940, the capitalization of the company was represented by long term debt of \$25,124,849, cumulative preferred stock with a par value of \$100 per share of 148,000 shares, common stock with a par value of \$25 outstanding to the extent of 2,663,999 shares. The financial position at the close of the year was remarkably strong with total current assets of

\$57,232,980 including cash of \$17,529,064 and marketable securities at quoted market value of \$2,134,728 as compared with total current liabilities of \$12,080,462. Inventories included in the current assets covering crude and refined oil which were carried at lower in the aggregate than market prices was represented by \$22,700,074 at the close of the year.

Atlantic Refining Co. is primarily a marketer and refiner of petroleum products producing only about 35% of its crude oil requirements. It depends to a great extent upon the spread between refined and crude prices for its profit margins. The company operates two refineries, one in Philadelphia and another in Texas with sufficient daily capacity to serve its market along the Atlantic Seaboard. Foreign business is not of great importance to the company since it only amounts to a small percentage of the total at this time. A new plant is planned by the company to manufacture 100-octane "super aviation" gasoline which would be used in military aviation. Other additions to plant and equipment are being made to round out the facilities enabling the company to contribute its full share to the national defense effort. The new unit for the manufacture of the super aviation gasoline is planned for its Point-Breeze refinery and it is expected that its cost will entail an expenditure of approximately \$7,750,000. This factor should go a long way towards diversifying the company's products and it is felt that it will be a contributing factor to future earnings.

While the outlook for oil companies is somewhat confused, the industry is in a position to show a material improvement in view of present day events. The expansion of our mechanized forces, a wider and more diffused purchasing power creating more expenditures for pleasure, possible increase in exports, all tend to augur well for the outlook of this company. A conservative accounting practice has been followed by the company in setting up reserves against possible contingencies and in view of the conservative dividend distributions of \$1 per share in recent years, we feel that such a policy in all probability will be continued throughout 1941. While we feel that the stock is worthy of retention in relation to earnings as a semi-speculation, we are not advo-

cating additional purchases of the stock at this time.

### R. H. Macy & Co.

*Do your analysts continue to regard R. H. Macy as a dependable investment for income, with better-than-average appreciation possibilities under war economy conditions? I have 60 shares which I bought at 43½. The factors which prompt this question is the very slight improvement in earnings shown for 1941 and the fact that this stock is now selling at approximately half the price I paid for it. Have sales shown any important lift since January? Do you expect that earnings for the first quarter should be far in excess of 1940 due to increases in consumer purchasing power—or do higher costs of labor, and taxes preclude that possibility? How do the prospects look now for the new Syracuse store? Is the Company's main New York store successfully meeting strong competition in that area—what about the state of operations in all other branches?—Mrs. S. S., Richmond, Va.*

For the fiscal year ending February 1, 1941, R. H. Macy & Co. earned \$2.38 per common share as against \$2.36 for the fiscal year 1939. Total sales increased from \$130,433,687 to \$135,323,578, while income taxes increased from \$820,000 to \$1,368,000. Financial position at the close of the year was represented by total current assets of \$34,755,326 including cash of \$6,016,317 and inventories (lower of cost or market) of \$17,134,818 as compared with total current liabilities of \$7,456,199. During the year the mortgage on the Bamberger property was reduced from \$3,900,000 to \$2,900,000 or a reduction of \$1,000,000 and subsequent to the end of the fiscal year a further reduction of \$1,000,000 was made. Capitalization of the company at the year end was represented by mortgages payable of \$3,924,500 and serial notes payable of \$5,000,000 and 1,659,554 shares of common stock.

In addition to operating the main store in New York City, the company operates L. Bamberger & Co. in Newark, New Jersey, the LaSalle & Koch in Toledo, Davison & Paxon Co. in Atlanta. A new store will be located in the community housing development in Parkchester located in the borough of The Bronx, New York. A new experiment is being conducted by a store in Syracuse known as "Macy's of Syracuse." This experimental venture is in a laboratory stage and its potentialities will be measured by its experience during the present year.

The company is now extending the distribution of its drug line to outside retail stores in an exclusive agency arrangement with retail druggists in the New England States, New York, New Jersey and Pennsylvania. This may be a forerunner of other steps in this line endeavoring to tap this new market for their products. It is believed that with the various outlets owned or controlled by this company that they are in a position to benefit from the increasing purchasing power and that sales should continue to increase over the near term. The \$2 dividend rate will probably be continued as earnings are sufficiently in excess at this time to warrant such distributions. The company does not appear to be particularly vulnerable to the excess profits taxes since on an average earnings base, in excess profits tax credit is \$2.16 per share while on an invested capital base, it is \$3.77 per share. Operating costs may increase but it is felt that they will be offset by increasing sales, thereby retaining the profitable status for the operations of this company. Therefore we believe that the stock of R. H. Macy & Co. is worthy of retention at this time for the good yield and for the moderate appreciation possibilities in line with increasing business throughout the country.

### Inspiration Consol. Copper Co.

*Would you advise averaging now on my 100 shares of Inspiration Copper acquired at 22? The resumption of dividends last year and the 25c already paid this year to my mind indicate that this Company is staging a substantial comeback which should be reflected in the price appreciation possibilities of its common stock. What is your opinion? Do you believe that the present price of copper and prospect of government control should assure continuation of sizeable profits (in excess of the \$1.87 earned in 1940) for this marginal producer? Does not the marked improvement in net last year after taxes—indicate that the Company is in a good tax position? Is their imminent danger of South American copper being purchased at lower costs capable of crowding out Inspiration? Please give me all of the essential facts and your opinions.—I. M., Darien, Conn.*

For the three months ending March 31, 1941, Inspiration Consolidated Copper Co. earned 43 cents per common share as against 25 cents per share for the comparable period of 1940. 1941 quarterly earnings were after a reserve of \$75,000 for contingencies. Financial position at

the close of the year was represented by total current assets of \$5,594,569 including \$3,693,466 of cash as compared with total current liabilities of \$948,968. Capitalization of the company is represented by funded debt of \$4,971,000, a decrease of \$939,000 in the year 1940, and common stock with a par value of \$20 per share of 1,181,967 shares. It has recently been reported that from November 1, 1940 to February 28, 1941, the company had purchased approximately \$274,000 of first mortgage convertible 4% bonds due in 1952 for sinking fund requirements, reducing outstanding bond indebtedness to \$4,851,000. During the depression years, this company operated at a deficit during the years 1931 to 1935 inclusive showing a profit in 1936 and 1937 with a loss of 27 cents per share in 1938 and profits from then on. This is accounted for by the fact that it is a high-cost marginal producer but reportedly under normal conditions able to produce copper after taxes, depreciation and interest for about 9 cents a pound. Its product is sold to Anaconda Copper and is used in their fabricating plant, all sales therefore being domestic.

The tax burden is not particularly heavy for the company has an estimated excess profits tax credit of approximately 62 cents a share, based upon average earnings before depletion, as compared with an invested capital base credit of approximately \$1.91 per share. Based upon a recent analysis of the reserves of this company, it was felt that they were ample for approximately thirteen years of capacity operations. During the World War period the output of copper increased approximately 40%, but in view of the increased size of projectiles, greater importance of mechanized facilities in the current war, it is quite possible that if the current conflict is as intense as the World War, that the output of copper will increase over the totals of the World War period. It is expected that earnings for this company in 1941 will show an improvement over those reported in 1940, and that distributions to stockholders will compare favorably with the 50 cents per share paid at the year end in 1940. The company recently paid a 25-cent dividend, and it is believed that with a further improvement in earnings, that additional dividends will be disbursed later on.

## DIVIDEND

### IMPERIAL OIL LIMITED

#### Notice to Shareholders and the Holders of Share Warrants

NOTICE is hereby given that a semi-annual dividend of twenty-five cents (25c) per share in Canadian currency has been declared and that the same will be payable on or after the 2nd day of June, 1941, in respect to the shares specified in any Bearer Share Warrants of the Company of the 1929 issue upon presentation and delivery of coupons No. 55 at:

#### THE ROYAL BANK OF CANADA

King and Church Streets Branch, Toronto, Canada.

The payment to shareholders of record at the close of business on the 15th day of May, 1941, and whose shares are represented by Registered Certificates of the 1929 issue, will be made by cheque, mailed from the offices of the Company on the 30th day of May, 1941.

The transfer books will be closed from the 16th day of May to the 31st day of May, 1941, inclusive, and no Bearer Share Warrants will be "split" during that period.

The Income Tax Act of the Dominion of Canada provides that a tax of 15% shall be imposed and deducted at the source on all dividends payable by Canadian debtors to non-residents of Canada. The tax will be deducted from all dividend cheques mailed to non-resident shareholders and the Company's Bankers will deduct the tax when paying coupons to or for account of non-resident shareholders. Ownership Certificates must accompany all dividend coupons presented for payment by residents of Canada.

Shareholders resident in the United States are advised that a credit for the Canadian tax withheld at source is allowable against the tax shown on their United States Federal Income Tax Return. In order to claim such credit the United States tax authorities require evidence of the deduction of said tax, for which purpose Ownership Certificates (Form No. 601) must be completed in duplicate and the Bank cashing the coupons will endorse both copies with a certificate relative to the deduction and payment of the tax and return one Certificate to the shareholder. If Forms No. 601 are not available at local United States banks, they can be secured from the Company's office or The Royal Bank of Canada, Toronto.

Under Canadian Foreign Exchange Control Regulations permission has been obtained for non-resident shareholders of Canada (other than residents of Continental Europe or of the French Empire and other than residents of enemy or enemy occupied territories) to convert this dividend at current Canadian Foreign Exchange Control Board rates into such foreign currencies as are permitted by the general Regulations of the Canadian Foreign Exchange Control Board. Such conversion can only be effected through an authorized dealer, i.e., a Canadian branch of any Canadian Chartered Bank.

Shareholders residing in the United States may convert the amount of the current dividend into United States currency at the official Canadian Foreign Exchange Control rate by sending at their own risk and expense coupons or dividend cheques properly endorsed, to the Agency of The Royal Bank of Canada, 68 William Street, New York City, which will accept them for collection through an authorized dealer, or direct to any authorized dealer of the Canadian Foreign Exchange Control Board.

Shareholders residing in countries other than the United States may under Canadian Foreign Exchange Control Regulations convert the amount of the current dividend by sending at their own risk and expense, coupons or dividend cheques properly endorsed, to The Royal Bank of Canada, King and Church Streets Branch, Toronto, Canada, or to any other authorized dealer or to the Agency of The Royal Bank of Canada, 68 William Street, New York City, U. S. A., with a request for a draft in such foreign currency as is permitted in settlement of same but they should first satisfy themselves that this action is not prohibited by the Foreign Exchange Control Regulations of the country in which they reside.

BY ORDER OF THE BOARD,

W. J. Whitting, Secretary.

56 Church Street,  
Toronto 2, Canada,  
May 12th, 1941.

Unless copper prices go into an upward spiral, we do not anticipate any competitive factors from foreign copper producers although such might be likely if prices began to get out of hand. It does not appear to be a question of demand holding up as much as the possibility that the supply will be insufficient for our increasing demands upon this industry. In view of the increasing consumption of copper and improving conditions of this company, we feel that its future is sufficiently promising to warrant speculative retention of current holdings as a good opportunity to participate in our all-out aid to the Democracies in the European war. Capacity operations are expected over the near term and augur well for the increasingly favorable outlook at this time.

### National Distillers Products Corp.

*For an investor who paid 25¼ for 75 shares of National Distillers, do you counsel selling out at this time? Don't you think that the new licensing program passed by the State Legislature, the prospect of higher taxes, the position of the liquor industry as a whole during the present defense emergency, make it virtually impossible for a Company like National Distillers to increase its earnings and move ahead marketwise? Is the sales and earnings outlook now for National Distillers more favorable than the poor first quarter? Are sales improvement and higher profits probable now as a result of increased consumer buying power—better liquor prices? Is it your opinion that National Distillers is in a more favorable position than its competitors? I would be very grateful to you for your assistance. Thank you.—E. P., Boston, Mass.*

National Distillers Products Corp. earned 39 cents per share in the first quarter of 1941 as compared with 53 cents in the comparable period of 1940. Total income after depreciation for this period was \$1,267,495 as compared with \$1,585,714 for the same period of 1940. Taxes, however, were slightly less than in the 1940 quarter and while sales are not available for the first quarter of 1941, it is believed that the smaller income was caused primarily by distributors using up surplus supplies, purchased in the latter part of the previous year for the holiday season. Last year earnings were \$3.28 per share as compared with \$3.43 for the year 1939. Provisions for Federal income taxes during the year 1940 increased \$1,149,043 or over 100%, more than offsetting the approximate 10% increase in net income. Sales

during the year showed an increase of \$11,756,760 or about 20%. Sales of the company's bottled and bond whiskies showed a substantial increase with the dollar value being approximately 22% greater than in 1939, which accounted for the major portion of the company's increased sales of whiskies. Brands such as Old Grand-Dad and Old Taylor maintained their strong position among the Kentucky bottled in bond whiskies, while sales of Old Overholt and Mt. Vernon, leading bottled in bond rye whiskies, also increased. The demand for these brands continue to approximate the available supply.

At the close of 1940, the financial position of the company was represented by total current assets of \$60,769,465 including \$1,938,284 in cash as compared with total current liabilities of \$10,447,161. The unfavorable factor in this picture is that inventories of \$36,278,236 compared with \$31,922,560 at the close of 1939. This shows a substantial increase and since it is not expected that the value of these inventories will increase over the near term if it is impossible for the company to increase sales to offset the increasing rate of production, it may have a restricting influence upon the earnings of the company. Capitalization is represented by \$21,108,000 of convertible 3½% debentures due in 1949 and common stock without par value outstanding to the extent of 2,045,451 shares.

It is interesting to note that the total production of whiskey in the United States in 1940 was 111,356,106 gallons as compared with 87,320,798 gallons in 1939 or an increase of 27.5% for the year. Total withdrawals in the year were 80,781,207 gallons, an increase of 7.5%, while total whiskey in bond increased only about 3% and amounted to 479,101,746 gallons as of December 31, 1940. National Distillers Corp. produced approximately 15% of total production of the country as compared to approximately 19% of the total in 1939.

The subject of taxation not so much on earnings capacity of the company as upon the products sold which would either result in prohibitive retail prices or the lowering of profit margins is of primary importance to the future of the company. Taxes upon this field of industry have been increasing and bids fair

to continue so. While the dividend of \$2 per share appears to be amply covered on an annual basis, we feel that such a rate will be continued over the near term unless of course, profit margins decline to such an extent that such a policy would not be deemed wise. At current levels, we feel that your commitment should be retained and classified as a semi-speculative stock producing a good income at this time.

### F. W. Woolworth Co.

*Are earnings for the first quarter of this year for F. W. Woolworth likely to show improvement over 1940? What is the outlook for betterment of the \$2.48 earned last year?—with allowances made for higher taxes? Are sales so far this year being maintained at 1940 record levels? Should new stores, improvements in old ones, at a time when tremendous defense funds are coming into the hands of consumers, materially enhance sales volume? Are wage costs higher? How are sales and earnings at present from subsidiaries in Canada, Cuba and South American outlets? What has happened to Woolworth's German properties? What can be expected of earnings from the British subsidiary in 1941? My holdings amount to 50 shares at 42. Kindly inform me whether Woolworth's income and appreciation prospects warrant my continued retention?—R. L. S., Los Angeles, Calif.*

For the first four months of 1941 F. W. Woolworth Co. reported sales of \$101,604,488 which represented an increase of 8.1 per cent over the comparable period of 1940. Sales for the year in stores operated in the United States, Canada and Cuba amounted to \$335,474,820, an increase of \$16,635,156 over 1939 results. Net income for the year 1940 was \$24,104,816 after deducting \$14,084,850 for depreciation, amortization and reserve for taxes. These earnings were equivalent to \$2.48 per share compared with \$3.02 per share for the year 1939. Net profit from store operations before deduction of tax reserves continues to show an improvement but total net income from all sources was adversely affected by a decrease of \$1,811,271 in cash dividends received from the British company due to lower exchange rates and higher foreign taxes deducted at source and by an increase of \$2,400,000 from the tax reserve due largely to higher tax rates. The British company reported a small increase in income for the year after reserve for taxes in excess of the amount for the preceding year.

The financial position of the company remains strong and at the year-end total current assets were represented by \$80,880,574 which included cash of \$28,073,663 as compared with total current liabilities of \$18,842,149. Merchandise inventories at cost or market, whichever is lower, were \$50,669,461, representing an increase of \$4,692,482 for the year. It has been reported by the company that 99.88 per cent of all merchandise purchased to sell in the U. S. A. was American made.

Capitalization of the company is represented by \$22,000,000 of 2½ per cent sinking fund debentures of 1955. In addition purchase money mortgages of \$2,439,750 giving a total long term debt of \$24,439,750. There is no preferred stock outstanding and the common stock with a par value of \$10 per share is represented by 9,750,000 shares. Investment in the unconsolidated German subsidiary is carried at book value, namely, cost plus the company's share of the accumulated undistributed surplus earnings up to December 31, 1938 but against which there is a reserve of \$6,000,000. The British company also unconsolidated is carried at book value which covers cost of stock plus the company's share of accumulated undistributed surplus earnings up to December 31, 1939. During the year 1940 the company was engaged in the construction of 20 new stores and the modernization of 129. Since the building program was started in 1936 up to 875 out of the total number operated have been modernized. The company has not completed its program for in 1940 it sold \$22,000,000 of new debentures to provide funds for the continuation of this work as well as retiring \$10,000,000 of other debentures carrying a 3 per cent coupon.

In view of the unbroken dividend record for many years it is believed that the current annual rate of \$2.40 per share will be continued over the near term. Profit margins may be lowered somewhat by higher costs but it is felt that increasing sales volume and the sagacious management of the company will be able to overcome these obstacles as well as going a long way toward offsetting higher tax burdens. All in all we feel that your commitment in this company's stock is worthy of retention at this time.

## Simmons Company

*I would like your help in deciding on whether or not I should retain my 100 shares of Simmons Co. which now show me a profit. I paid 13 for my investment. Is it your opinion that sales and earnings have already seen their peak, with higher taxes and costs of labor and raw materials bound to cut in on profits? Have defense orders from the governments of U. S., Canada and Great Britain been mainly responsible for the gains shown in 1940? How do sales of the Company's regular line of sleeping equipment, and textiles stand now? Can you tell me how profits compare on government orders and from business originating from regular consumer channels? What is the status of the Company's English subsidiary, Simco Limited? Do you suggest that I take my small profit and sell out at current levels—or have I more to gain by holding?—F. M. Mc., Providence, R. I.*

For the year ended December 31, 1940, Simmons Co. had consolidated net sales (exclusive of sales of the English subsidiary not consolidated this year) of \$42,635,651, or \$3,801,313 over 1939. Earnings after taxes and all-over charges were \$2,702,298 in comparison with \$2,446,681 or \$2.33 and \$2.11 per share respectively. Income taxes, etc., of \$1,086,826 were deducted from 1940 results which is \$511,443 in excess of such deductions in 1939. Due to flood losses last August the Roanoke Mills Co., one of the subsidiaries, was severely damaged, entailing a loss of approximately \$350,000. This loss was figured by the money loss of damages plus the loss of profits, since it was the peak period. The monetary loss was charged off during the year. The operations of Simmons, Ltd., of Canada from a sales angle was satisfactory. Business with the Government (Canadian) increased 243% over 1939 while export and domestic sales showed a satisfactory gain. Income and war taxes took about 50% of total earnings leaving net income after taxes at less than the previous year for the Canadian company. Simco, Ltd., the English company, with a factory just outside of London which, at last reports, was still operating, had comparable sales with 1939. Results for the year, however, after taxes, produced a very small profit. The net investment, in non-insurable assets other than real estate, is approximately \$150,000. The textile mills of the company have been operating at capacity levels during the year and bid fair to continue at such rate at least during the first half of 1941.

## DIVIDEND

### INTERNATIONAL PETROLEUM COMPANY, LIMITED

Notice to Shareholders and the Holders of Share Warrants

NOTICE is hereby given that a semi-annual dividend of 50c per share in Canadian Currency, has been declared, and that the same will be payable on or after the 2nd day of June, 1941, in respect to the shares specified in any Bearer Share Warrants of the Company of the 1929 issue upon presentation and delivery of coupons No. 55 at:

**THE ROYAL BANK OF CANADA**  
King and Church Streets Branch  
Toronto, Canada

The payment to Shareholders of record at the close of business on the 20th day of May, 1941, and whose shares are represented by registered Certificates of the 1929 issue, will be made by cheque, mailed from the offices of the Company on the 30th day of May, 1941.

The transfer books will be closed from the 21st day of May to the 2nd day of June, 1941, inclusive, and no Bearer Share Warrants will be "split" during that period.

The Income Tax Act of the Dominion of Canada provides that a tax of 15% shall be imposed and deducted at the source on all dividends payable by Canadian debtors to non-residents of Canada. The tax will be deducted from all dividend cheques mailed to non-resident shareholders and the Company's Bankers will deduct the tax when paying coupons to or for account of non-resident shareholders. Ownership Certificates must accompany all dividend coupons presented for payment by residents of Canada.

Shareholders resident in the United States are advised that a credit for the Canadian tax withheld at source is allowable against the tax shown on their United States Federal Income Tax return. In order to claim such credit the United States tax authorities require evidence of the deduction of said tax, for which purpose Ownership Certificates (Form No. 601) must be completed in duplicate and the Bank cashing the coupons will endorse both copies with a certificate relative to the deduction and payment of the tax and return one Certificate to the shareholder. If Forms No. 601 are not available at local United States banks, they can be secured from the Company's office or The Royal Bank of Canada, Toronto.

Under existing Canadian Regulations: (a) Payment of this dividend to residents of enemy or enemy occupied countries is prohibited. (b) Payment thereof to residents of other portions of Continental Europe or of the French Empire is prohibited but such residents may direct the deposit to their credit in a Canadian Bank of all amounts payable to them. (c) Other non-residents of Canada may convert this dividend at current Canadian Foreign Exchange Control rates into such foreign currencies as are permitted by the General Regulations of the Canadian Foreign Exchange Control Board. Such conversion can only be effected through an authorized dealer, i.e. a Canadian Branch of any Canadian Chartered Bank.

Shareholders residing in the United States may convert the amount of the current dividend into United States Currency at the official Canadian Foreign Exchange Control rate by sending at their own risk and expense, coupons, or dividend cheques properly endorsed, to The Agency of The Royal Bank of Canada, 68 William Street, New York City, which will collect them for collection through an authorized dealer, or direct to any authorized dealer of the Canadian Foreign Exchange Control Board.

Shareholders residing in countries other than the United States to whom payment is not prohibited as above noted may convert the amount of the current dividend by sending at their own risk and expense, coupons, or dividend cheques properly endorsed, to The Royal Bank of Canada, King and Church Streets Branch, Toronto, Canada, or to any other authorized dealer or to The Agency of The Royal Bank of Canada, 68 William Street, New York City, U. S. A., with a request for a draft in such foreign currency as is permitted in settlement of same, but they should first satisfy themselves that this action is not prohibited by the Foreign Exchange Control Regulations of the country in which they reside.

By order of the Board,  
J. R. CLARKE, Secretary.

56 Church Street, Toronto 2, Canada.  
12th May, 1941.

Leading corporations run their current dividend notices with us! They know that ALL of our readers are stockholders of record, seeking investment for their surplus funds.

Address—Advertising Department  
90 Broad Street New York, N. Y.

The financial position of the company is strong, with total current assets of \$19,438,665 including cash of \$5,065,822 as compared with total current liabilities of \$3,464,478 at the close of 1940. Inventories at lower than cost or market were \$8,753,735 or slightly larger than last year. The company states that they are not speculating in inventories for a price rise and that increases are due to a larger business and a slowing down in suppliers' deliveries. During the year 1940 the company provided an additional \$100,000 from income to the reserve for war contingencies created last year bringing this reserve to \$400,000. About \$900,000 was spent during the year for plant additions and improvements.

In view of the substantial unfilled orders on the books of the company it is felt that operations will continue profitably and show some expansion at least in the first half of 1941. The dividend policy in the past has been liberal and it is believed that such treatment will continue in 1941. Substantial orders have been received from the Government in our rearmament program as well as domestic orders which come as an indirect result made possible by the higher and more widely diffused purchasing power throughout the country. Barring excessive taxes we feel that 1941 results will be sufficiently promising to warrant retention of semi-speculative holdings in the stock for its liberal dividend and possibility of moderate price appreciation when the market becomes more settled.

#### Crown Cork & Seal Co.

*Are the prospects of CCK such now that I might have a reasonable possibility of getting the equivalent or more than my money back on these shares this year? I paid 32 for 75 shares—currently the stock is priced at 23. I know Crown Cork was up to 38 1/2 last year with earnings equalling \$3.90. Are earnings doing better in 1941 so far? Is the Crown Can subsidiary proving more profitable than last year? What is the sales outlook for Crown closures to all of the Company's markets—bottling machinery—seamless cans? Is the Company's inventories of cork ample for long term production needs to forestall fear of interference of cork shipments from abroad? What about current profit margins and the vulnerability of the Company to new taxes? Your opinions at this time will be exceedingly valuable to me.*  
—L. P. T., Topeka, Kansas

For the three months ended March 31, 1941, Crown Cork & Seal

Co. earned 77 cents per common share as against 54 cents for the corresponding period of 1940. Earnings on the \$2.25 preferred stock were \$2.34 and \$1.80 per share respectively. While income taxes during the period were approximately 100% higher no provision was made for excess profits tax. It is estimated that excess profit tax credit on an average earnings base would be approximately \$2.29 per share while on the invested capital base the exemption would be about \$3.67 per share. With earnings being estimated for the current year in the neighborhood of \$4 per share the company would not be particularly vulnerable to the excess profit tax. Other taxes however, as shown in the first quarter results, will increase during the year.

There has been some discussion in recent weeks concerning the sale of the can division to National Can Corporation. While nothing has been made definite it has been reported that discussions have been held at least on the part of National Can Corp. This company through its subsidiary, Crown Can Co., is engaged in the manufacture of certain defense materials under contracts from the U. S. Government. In the performance of these contracts Crown Can Co. employs primarily special equipment not used in the manufacture of cans and the activities in this respect are principally in the machinery division. Normal production of closures and cans will be unaffected by the Government work and the machinery division is continuing production of its complete line of equipment. It appears that the company is well fortified with cork reserves and now has on hand in this country, stored in scattered warehouses, a larger combined stock of manufactured and unmanufactured cork than at any corresponding period in previous years. Shipments of cork are being received in sufficient quantities to meet current requirements.

The financial position of the company at the close of the year was favorable with total current assets of \$20,124,796 including cash in banks and on hand of \$4,423,813 as compared with total current liabilities of \$3,188,478. Capitalization consists of \$15,000,000 of 3 1/2% debentures of 1955 and notes payable of \$3,300,000 with \$700,000 due December 31, 1941, and being car-

ried as a current liability. Equity interests are represented by 225,000 shares of \$2.25 cumulative preferred stock without par value and common stock, par value \$5, outstanding to the extent of 531,231 shares.

With earnings improving it is quite a possibility that dividends will be larger than the 50 cents paid in 1940. The production of crown-tainers (seamless cans) is being increased, the product being used by several of the large brewery companies operating in eleven states and with other divisions operating at increased rates we feel that the future is relatively promising at this time. While the stock may not appreciate to the 1940 highs we do feel that with the stabilization of the market and with the expected increase in earnings that share prices will be favorably influenced. Consequently, we advise the retention of your commitment in the stock of this company at this time.

#### Another Look at . . .

(Continued from page 197)

in 1940 were equal to approximately \$1.25 a share of common stock as compared with about \$0.50 a share in the year before that. Were it not for new taxes, first quarter earnings would undoubtedly have been better than \$0.80 a share. For the 12 months period ending March 31, 1941, the company's earnings were equal to \$2.65 a share as compared with \$2.82 a share in the same period of 1940. It is unlikely that full year 1941 results will be below those for the 12 months ended March 31st, for new contracts for paper products will undoubtedly include estimated increases in taxes and other expenses. In fact, profit margins may improve later in the year as the new contracts come into force since almost all of the company's 1941 pulp purchase contracts have been let and no increase in prices of this basic raw material is likely until the time for new pulp contracts arrives.

The stock has never been very active from a market standpoint and there is not any good reason apparent why this condition should soon change. The current dividend is fairly secure and the return adequate, but apart from that, the

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shares offer little that might stimulate a strong market interest in them.

### Sears, Roebuck & Co. Inc.

Due in part to the relatively late date of Easter but mostly because of better consumer purchasing power and comparatively low selling prices, Sears, Roebuck & Co. April sales were not only 34.3 per cent higher than a year ago but were also one of the best monthly sales on record. The increase of April followed a gain of 30.4 per cent registered in March. During the first 10 days of April, total sales were close to 50 per cent larger than those of the same period of a year ago and the mail order division showed an even greater gain. With higher consumer incomes and the general realization that current low catalogue prices cannot be maintained beyond the life of the heavy inventory accumulations of late 1940, sales for May and June should continue to show a similar rate of improvement as those of the earlier part of the year.

A contributing factor to higher sales is the fact that the mail-order house retail stores have been cutting into independent retail store sales to an increasingly large extent. Independent merchants, unable or unwilling to stock as far ahead as the mail-order houses, must more quickly pass increased costs on to the purchasers with the result that the differential in selling prices is becoming more favorable to the mail-order stores. While the price spread will probably narrow later in the year, Sears purchased an unusually large quantity of merchandise last year for this year's sales so that the necessity to increase prices can be deferred longer with obvious advantage to Sears over the independent retailer as well as its principal mail order competitor.

First quarter earnings for the period ended April 30 are not as yet generally available, although the president of the company indicated that they would be better than those of a year ago. This becomes more significant when it is remembered that the reports for the first quarter of 1940 did not include later imposed taxes. The mail-order companies will undoubtedly experience a strong and maintained demand for their merchandise and with their extensive buying and financing facili-

ties, profit margins should be reasonably well maintained. This particularly applies to Sears, Roebuck whose management appears to have outguessed the others in the matter of inventory accumulation. From a market standpoint, the outlook for the company and the industry is sufficiently well defined to warrant satisfactory action in the event of a general price advance and strength to resist any further liquidation tendencies.

## Realistic Appraisal of U. S. Economy at War

(Continued from page 177)

probably would not curtail spending much anyway, since it is well above the lower-income classes, and in the main has savings, on which it would very likely fall back, if necessary, to maintain living standards. Thus, the impact of increased national income on consumer goods supplies may be far greater than is generally realized at the present time. A further upbuilder of national income may be corporations, which faced with large taxes may prefer to a certain degree to make greater expenditures in the form of advertising, maintenance, etc. If at the same time rising commodity costs could be passed along, the effect would be doubly inflationary.

Evidently, the Government would have before it a major job in holding inflationary price trends back. Increased taxes, production and price controls and Government action will help, but apparently the irresistible force of sharply higher income—particularly in the low income groups, which notoriously cannot hold on to their money—is bound to break through somewhere. Some of this higher income will be sopped up by "forced" savings. Through patriotic appeal and actual pressure on employers and employees, some of this income will be steered into war-savings stamps, "Liberty" bonds and other Government indebtedness certificates, such as the current "baby" bond. Under active discussion are plans which would fully blossom out in real war for deducting installment payments directly at the source of the workers' incomes. The net effect (which will

## DIVIDENDS

### COMMERCIAL INVESTMENT TRUST CORPORATION

*Convertible Preference Stock, \$4.25 Series of 1935, Dividend*

A quarterly dividend of \$1.06¼ on the Convertible Preference Stock, \$4.25 Series of 1935, of COMMERCIAL INVESTMENT TRUST CORPORATION has been declared payable July 1, 1941, to stockholders of record at the close of business June 10, 1941. The transfer books will not close. Checks will be mailed.

*Common Stock, Dividend*

A quarterly dividend of \$1.00 per share in cash has been declared on the Common Stock of COMMERCIAL INVESTMENT TRUST CORPORATION, payable July 1, 1941, to stockholders of record at the close of business June 10, 1941. The transfer books will not close. Checks will be mailed.

JOHN I. SNYDER, Treasurer.

May 22, 1941.



### NATIONAL DAIRY PRODUCTS CORPORATION

A dividend of 20¢ per share on the Common Stock has been declared, payable July 1, 1941, to holders of record June 3, 1941.

GEORGE H. RUTHERFORD

May 22, 1941

Treasurer

### THE ELECTRIC STORAGE BATTERY CO.



The Directors have declared from the Accumulated Surplus of the Company a dividend of Fifty Cents (\$0.50) per share on both the Common Stock and the Preferred Stock, payable June 30, 1941, to stockholders of record of both of these classes of stock at the close of business on June 9, 1941. Checks will be mailed.

H. C. ALLAN, Secretary and Treasurer.  
Philadelphia, May 16, 1941.

### THE WESTERN UNION TELEGRAPH CO.

New York, May 13, 1941

DIVIDEND NO. 258

A dividend of \$1.00 a share on the capital stock of this company has been declared, payable June 30, 1941, to stockholders of record at the close of business on June 7, 1941.

G. K. HUNTINGTON, Treasurer.

### PHILCO CORPORATION

Radios • Auto Radios • Tubes •  
Refrigerators • Air Conditioners

### DIVIDEND ON COMMON STOCK

The directors of Philco Corporation have declared a dividend of twenty-five cents (\$.25) per share, payable on June 12th, 1941, to stockholders of record on May 26th, 1941. This is the second dividend of twenty-five cents (\$.25) declared this year.

### PHILCO CORPORATION

ANACONDA COPPER MINING CO.

25 Broadway

New York, N. Y.

May 22, 1941

DIVIDEND NO. 132

The Board of Directors of the Anaconda Copper Mining Company has declared a dividend of Fifty Cents (50¢) per share upon its Capital Stock of the par value of \$50 per share, payable June 23, 1941, to holders of such shares of record at the close of business at 3 o'clock P. M., on June 3, 1941.

JAS. DICKSON, Secretary & Treasurer

be slow in transpiring) would serve two desired aims, in the eyes of Treasury officials: (1) cut down consumption of goods and thereby—in some instances—reduce potential competition with the defense program; and (2) create savings which will be available to these lower-income groups to cushion the post-war letdown.

One of the first actions of Leon Henderson's powerful price-control unit, either in war or simply in the defense economy, if prices begin to get out of hand, would be the placing of ceilings on retail prices. In his typical picturesque and forceful manner, Price Administrator Henderson already has indicated this. He said recently that regulation of retail prices would be a difficult administrative problem, but that unjustified advances in living costs "feed the demand for wage increases and force prices further." He pointed out additionally: "Once that particular cat begins chasing its tail around the circle, the only way to stop him is to cut his tail off. A price schedule for retail sales provides an admirable knife for such an operation although I do not want to be the surgeon unless I am forced to be."

Certainly, as to other types of prices, Henderson has allowed no grass to grow under his feet. Price ceilings on over 34 consuming points have already been established for the iron and steel industry, just as this industry was getting ready to raise prices and thus pass on part of the recent wage increases. The large steel, copper and other industrial enterprises have been complying with demands that prices be maintained at prevailing levels. In any event, the Henderson approach is sound. His fundamental line of attack in controlling prices is to attempt to obtain increases in the source of supply first—for civilian goods as well as raw materials needed for armaments in the defense program. This takes into consideration the proved economic fact that supply is the fundamental regulator of prices and that when demand expands the way to hold prices in line is to increase supply. The thought is, where possible, a dampening of inflation with plenty.

Another division of the American economy—labor—is likely to come in for considerable readjustment, even though our Government has

consistently taken a much more paternalistic attitude toward labor than have either England or Canada. Obviously, inflation brakes with mere price controls cannot be expected to work if a limit is not also placed on wage advances. Even a form of semi-drafted labor—mildly along British lines—would be likely. Anti-strike legislation would be quickly passed; in fact, even now it is within easy reach for potential passage when stoppages in defense industries get acute again.

Summing up, actual war, then, would mean sharp intensification of all existing controls, but with only minor new ones added, since the war economy machinery already has been set up; this would mean real price control, broad extension of priorities to suppress all districting activities and push armament without regard to setbacks for non-armament lines, much higher and broader individual and corporate income taxes, labor regulation which will look severe compared with the Administration's current easy-going attitude toward labor, sharper money and credit controls, virtual direct dictatorship over important defense lines, such as aircraft, machine tools and shipbuilding, and generally broad regimentation under the dictatorship of Washington.

### PART III

In such an atmosphere, what kind of position will the investor be in? In what situations will he find the greatest assurance of strength? Where will the greatest weaknesses develop? What factors will be paramount in governing the trend? These and numerous questions crop up in the minds of the investor or trader as he visualizes the United States at war. In the preceding paragraph we mentioned the possibility of virtual direct dictatorship over important defense lines. Such a move would bring even more extensive supervision than at present over such industries as aircraft, armament plant construction, automotive plants, chemicals, metal producers, metal fabricators, electrical equipment used for armament, clothing and related equipment for the services, defense machinery and machine tools, oil, defense orders of railroad equipment companies, railroads shipping and shipbuilding,

steel and munitions generally.

The more direct regulation of these lines, with the United States as an actual belligerent, however, would not mean that profits of companies operating in these fields would be drastically readjusted. Any actual taking over by the Government probably would be quite reasonably compensated for, as in the instances of utilities which in the past have come under Federal ownership. However, it is not our thought that any wholesale acquisition of defense industries will be undertaken by the Administration during an actual war. To some extent, Washington has shown its hand in its defense plant construction policies which put Government-financed plants under private operation and give these operators the privilege of acquiring the plant permanently, if they wish to do so. The current tax program, too, points definitely to continuing the corporation - profits and private-stock-ownership system.

Actually, then, it is likely that war would bring for the various lines mentioned in the first paragraph of Part III an additional sharp rise in aggregate business. The stricter regulation of these industries would be aimed, of course, at speeding their production, which in essence means prosperity for these enterprises. Intensified priorities will help these lines through provision of materials in as great quantities as our business structure can turn it out; naturally, it is for the armament lines that the priority system has been instituted. Price controls also will help as far as the armament producing lines are concerned, since the materials will be provided at reasonable figures. Stricter labor regulation likewise will help through increasing efficiency, reducing strikes and stepping up production. Expansion money will be instantly available through Government channels, or the Government itself will do the expanding. But, and a large "but" it is, too, the greater output will by no means bring greater profits in the same ratio, not so much because the Government will dictate the price it will pay for armament goods, and such prices will be reasonable, but more because of advanced taxes. This is apparent in our own domestic trends, but appears more definite when viewed in

the light of British and Canadian experience.

Nevertheless, for all the effect of higher taxes and increased operating costs, the armament-beneficiary industries, such as those mentioned in the first paragraph in Part III of this article, will make an excellent profit showing. Most of these lines this year, for example, are likely to report more net income than in 1940. The previously mentioned industries, however, are so subdivided that a reclassification of exactly those industries which we believe will do better this year than last year, war or no war, seems in order. Such industries are: aircraft manufacturing, building and building materials (heavy work, including dredging, military bases, plant construction, etc.), chemicals, coal (bituminous), heavy electrical equipment, industrial machinery, machine tools, railroads, railroad equipment, metal fabricating, munitions, non-ferrous metals, shipbuilding, steel, trailers and trucks. Certain indirect war-economy beneficiaries, such as meat-packing, oil and sugar also may make a fairly good showing.

Indicative of what the booming railroad industry is doing earnings-wise is a 175% increase in net income for the 1941 first quarter over the first quarter of 1940. This phenomenal showing was made possible by the large increase in their gross business and the fact that railroad companies are largely exempt from excess profits taxes. There are certain reservations on earnings possibilities of this group, as well as a number of others which hinge on the provisions of the new tax law. This is of such exceptional importance in all earnings forecasts that we suggest that readers study our 1941-tax article in the May 17 issue of the **MAGAZINE OF WALL STREET**.

An idea of what the above-mentioned favored industries can do even in the event we do not get into the war may be obtained from a study of the progress of our defense program. While there have been contract awards of over \$16,000,000,000 since the defense program began, not much over a third of this actually has been spent; that is to say actual disbursements by the Treasury in real payment of defense bills are only around \$5,000,000,000. Defense orders are saturating American business at the rate of over \$800,000,000

monthly, which is only a small fraction of the \$40,000,000,000 of contemplated expenditures for armament. We hope to complete this program within the next two years, but an analysis of the figures shows what a colossal achievement such a result would be. To pile the awards on our domestic economy in three years, for example, would involve outlays at over \$1,100,000,000 each month. To spend the aggregate contemplated in, say, two years would require an absorption at a rate of \$1,650,000,000 monthly. But, even with the relatively "small" \$5,000,000,000 actually spent, the country's production structure is heavily loaded. Thus, an idea of the enormity of the task ahead of us becomes evident.

Representation in the previously mentioned industries, assuming continuation of a war economy, would be preferable to representation in less-direct beneficiaries from the defense program, since the gigantic war production effort, which is only beginning, will be pushed at the expense of a number of other industries. Foremost among the major lines to be so encroached upon is the automotive industry. Among the other industries which would make relatively poor profit showings, simply because they will be unable to show large enough increases in gross revenues to overcome higher taxes and general costs, or because of direct curtailment (as in the automotive industry) arising from defense program requirements, are: finance companies, utilities, tobacco products, cosmetics, metal containers, food products, gold mining, medicines and drugs, refrigerators, washing machines, light electrical equipment, miscellaneous household products (particularly those using metals), beverages, soaps, chain stores, department stores and mail order.

Trend of the market in the event of war naturally is a paramount consideration. The success of our moves as the war progresses would, of course, be major influences on market trend, as, too, would be the likely duration of the war.

A full discussion of potential market moves if the United States goes to war may be found in A. T. Miller's comments in the current issue on page 168.

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## Measuring Relative Equity Values

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(Continued from page 186)

pay a reasonable dividend, despite higher costs and taxes.

The same conclusions doubtless apply also to the shares of such companies as General Foods, May Department Stores, Kroger Grocery, Montgomery Ward, Sears Roebuck, J. C. Penney, United Fruit and others of similar background. Whatever stake these companies have in war and defense is at best indirect, resulting from the broader diffusion of purchasing power. By the same token they have less to lose should later events take an adverse turn. They would all be affected by a relapse in general business activity, but most certainly not to the extent of those companies with their hands and fists in the defense pie.

Special mention might be made of the chemical group. As in the past, the shares of leading chemical companies continue to sell at a high ratio to earnings, although the effects of defense activity have been barely discernible in the earnings of this group. In fact several companies have recently shown lower earnings as a result of the heavy toll levied by taxes. There is no denying that the stubborn faith in the growth possibilities of this group is apparently well founded, and may even be accelerated by technological progress born of the necessity of defense. At the same time, and should the market be subjected to a further readjustment of stock values, this group might be found vulnerable.

Throughout this discussion mention has been confined to the shares of the larger and better known companies. In justice, however, it should be pointed out that among many of the so-called secondary companies common stock values appear lots closer to realities than in the case of first line companies. It is true, of course, that the market normally is less prone to exaggerate the earnings and prospects of the shares of secondary and marginal companies. This tendency, however, does not alter the fact that among these companies are quite a number with a creditable record of profits and divi-

dends. To cite an example, Doehler Die Casting showed profits in each of the pre-war years and earnings for this period averaged \$2.25 a share. Last year the company earned \$3.68 a share. At recent quotations the shares were selling barely five times last year's earnings and about 8.4 times the five-year average. L. S. Starrett, with an even more impressive earnings record to its credit, is capitalized at 11.8 times five-year average earnings and about 7.7 times 1940 earnings. Shares of Thompson Products are selling ten times the pre-war average and slightly better than five times last year's earnings. It would not be difficult to extend this list to include both companies benefitting from defense orders and companies whose business is more or less outside of the defense scope.

By employing the device of measuring price-earnings ratios against the average for five pre-war years in this discussion, it has not been the intention to endorse this method as an infallible guide to common stock selection. It is presented as a valid basis for rationalizing some of the many conflicting factors reflected in stock prices today. At the same time it can be defended on the grounds of common sense, unless of course one is convinced that an entirely different conception of common stock values will prevail in post-war years.

## As I See It

(Continued from page 167)

all our energies toward the defense of our country we are going to risk mortal danger.

*First*, we must regain control of the Atlantic, in order to keep the war off our shores, following the basic principle of self-preservation. It would be quite possible for the Germans to content themselves with besieging the British Isles, and concentrate their attention on Canada and the United States from bases in Greenland. A token aerial bombardment of New York has already been discussed.

*Second*, we must get rid of the German, French, Italian and Spanish diplomats and consular staffs; round up the fifth columnists, and nullify the appeasers.

*Third*, and of utmost importance, we must be united and determined on a total war effort. That is our trump card—the one that Hitler fears most.

I believe that the Hess episode was the first move in the campaign toward keeping the United States out. It could easily have been used by Hitler for the purpose of creating suspicion in the mind of our government that England was making peace behind our back—to cause us to hesitate at this crucial time.

The novel attack on Crete seems to be a part of the same pattern too, and designed to strengthen the opposition. So were Admiral Raeder's threats—an attempt to modify the belligerency of the President's speech.

We are confronted with a dangerous and unscrupulous enemy, who is moving fast in our direction. We must take decisive action at once. There can be no delay about it. Our country is vulnerable from Germany in the Atlantic and from Japan in the Pacific—with dire economic and social implications for us if we do not immediately wake out of our lethargy. Our words and wishful thinking can not halt this aggression. Force—and only force—can do it. We don't want the threat of an Eurasian mixture in our western states or of a German master race anywhere in this hemisphere.

## Oils in a Dual War Role

(Continued from page 189)

less over the medium term, even with Leon Henderson actively opposing them as undesirable and uneconomic.

For a considerable period of time, the Federal Government has been making strong attempts to regulate the petroleum industry. These attempts have been characterized by many suits against the integrated companies under restraint of trade, anti-trust and other laws which the Government prosecutors hope may apply to the case at hand. So far, the Government has been only slightly successful although in the event that this country actually gets into the war, this fact may offer the sought-for opportunity. On the

other hand, those in charge of defense efforts oppose such action against the oil companies in the interest of national safety, and it is possible that this objection may serve as an effective buffer, at least for the time being. In the case of the crude producers, the government would not have such an easy time of it. Most of the oil comes from the Southern States where the doctrine of State Rights is still as jealously guarded as it was in 1863 and before then. These states claim that they have ample control of crude oil production within their respective borders and any Federal interference would not only be unwelcome but would forcibly be resented.

Of course, one way in which it might be possible to whip the crude oil producers into line would be to interfere with the transportation of crude oil from the fields to the refiners. This transportation is furnished mostly by the pipe lines and the pipe lines are in turn controlled mostly by the large integrated oil companies of the country. These private lines are in existence to furnish oil to their owners and cover a vast network. Were it not for these lines, many new oil fields would be unable to ship their wares to a market and with no buyers, the oil would be practically valueless. In this situation rests the fallacy of a government-owned pipe line which would at best be only a main line and thus lack the many hundreds of miles of small feeders which make the main line operation fairly profitable for the owners.

The most recent suit against the refiners stipulated that they should divest themselves of their pipe line ownership. This is acceptable in theory but impractical as far as the crude oil operator is concerned. Most privately owned pipe lines take all crude oil offered in order to satisfy their own refinery needs and also to see that the independent crude producer in the area served has an outlet for his product. Only in the broader sense is the pipe line operator a common carrier, for the producer sells his oil to the pipe-line owner at the well or receiving station and thereafter, the pipe-line owner transports his own property where it will best serve his purposes. This is feasible in connection with a large, integrated oil company but would hardly be practical if the pipe line

was purely a common carrier, being compensated only for the transportation of the product. It is more than likely that this matter and others along the same line will have to await a more favorable opportunity for the government to act upon them.

The oil companies, themselves, are in a very fair position to show improved earnings during the coming months and on the whole, results for 1941 should be moderately better than in 1940. This is apparent from the first quarter earnings statements of some of the leaders in the industry. True, taxes will have a further effect upon many of them but due to the nature of the business, the petroleum industry is one of the most difficult to appraise on a tax basis. This is because the industry is founded upon the exploitation of a natural resource just in the same manner as is coal, copper or gold mining. There are many deductions allowable from income that would not apply to a strictly manufacturing industry. Moreover, the financial reports made to the stockholders frequently vary widely from those made to the government for tax purposes, for actually, part of any dividend received by a stockholder is a partial return of invested capital by virtue of the fact that his equity in the property is reduced to the extent of withdrawals of oil during the year. Also, charges for drilling, abandonment of wells, exploration and many other expenses only partly appear as a charge against earnings in a stockholder's report while they are fully chargeable in an income tax return. Generally speaking, individual company taxes will be higher, although it may be possible to lessen the impact of the major increase through legitimate application of all possible exemptions. The already large excise taxes are expected to go higher, though they are not likely to prove much of a drawback on demand, in view of rising public purchasing power.

While the small oil companies will enjoy relative freedom from threats of Federal prosecution, it will be the larger ones that will have the better profit opportunities. This is due mostly to the wide coverage of the larger units, the efficiency of operations born of large volumes and the substantial financial position which

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is characteristic of most of the larger units in the industry. Some of the small companies may, from time to time, enjoy a period of favorable prospects, due mostly to a fortuitous position under a single set of circumstances, but in the longer run, it will be the large units which will render the best average performance. And, under present circumstances, those companies whose interests are confined almost completely to the production of domestic crude oils will probably make the better showing as far as profit margins are concerned; but here again is the problem of diminishing reserves and the constant necessity of replenishment.

Taken at its best, the entire petroleum industry is a speculation and the situation has the capacity of almost over-night changes, which,

more often than not, are of an adverse nature. Petroleum is a vital war necessity—when there is a limited supply available—but in the case of domestic oils, the supply is so ample that all needs—military, commercial and private—can fully be satisfied without any appreciable strain. The oils are definitely not war babies. Higher costs and taxes will see to it that net profits after all charges are not overly large so that the possibility of strong earnings growth is absent. Dividends will probably be continued at near to current levels, but experience has shown that they are just about as stable as any other factor in the petroleum industry and, therefore, in most cases, lack the long term dividend attraction possessed by other industrial groups.

As in no other broad stock market

group are the oils divided between good, bad and indifferent situations. There is little sense in attempting to treat the group as a whole although it must be admitted that on occasion, they all move more or less in the same direction at the same time. In the better groups, which includes Standard Oil of N. J., Socony-Vacuum, Texas, Gulf, Tide Water, Sun Oil and similar companies there are behind them the sizable resources and financial stability of well integrated companies. These companies have considerable investment merit which permits them to more closely follow general market trends than some of the other, less favored companies. They are all integrated to varying degrees and are more able to reflect country-wide conditions rather than those of a limited locality.

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### Railroads and Rail Equipments

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*(Continued from page 193)*

and prolific producers of armament and armament materials. The size of the latent railroad equipment capacity can be gained from the fact that Pullman has the capacity to manufacture approximately 76,000 cars a year while Baldwin Locomotive could turn out as many as 3,000 locomotives in any one year if orders for them were to be forthcoming. In other words, Pullman alone could handle at least 50 per cent of all of the cars expected to be ordered for the peak year of present traffic movement—1943—and Baldwin is equipped to turn out more locomotives alone than were ordered in any one year since 1918. On this basis, it would seem that present and potential railroad equipment business could be taken in stride without using more than 50 per cent of existing capacity—if enough steel could be had.

However, the same companies and others in the field have on hand unfilled armament orders for about \$500,000,000 and much more than that amount is in prospect. At the latest count it was estimated that Baldwin Locomotive, for instance, had \$84,000,000 of unfilled armament orders on hand or 275 per cent of 1940 total sales, while Midvale

Co., Baldwin's steel manufacturing subsidiary, had unfilled orders for \$38,000,000 or more than 161 per cent of last year's sales. Pullman, with about \$50,000,000 of unfilled armament orders awaiting completion, has gone so far in the armament business that it has virtually abandoned one section of its vast plant which was devoted to the making of aluminum streamlined trains, to make airplane parts, while another section, which formerly manufactured freight car parts, is now solely devoted to turning out parts for steamships. Baldwin did, however, find the space and time to start the manufacture of 125 locomotives of all types in 1940 while Pullman accepted orders for nearly 17,000 freight cars or approximately 25 per cent of all of the orders placed during the year.

Practically the same thing applies to all of the other equipment builders. American Car & Foundry received orders for 12,105 freight cars last year but the company recently had on hand armament orders amounting to \$95,000,000 or almost double total 1940 sales. American Locomotive received orders for 222 locomotives of all types last year but its importance is overshadowed by the fact that unfilled armament orders currently amount to more than \$120,000,000 or better than three times greater than 1940 sales. Even Lima Locomotive which received only 6½ per cent of the total locomotive orders let in 1940 had more than \$9,000,000 of unfilled war orders on hand recently and this modest sum was equivalent to nearly 133 per cent of last year's sales. There is no railroad equipment company in this country that does not have war orders of several millions of dollars in addition to its share of a growing demand for railroad equipment.

Several factors favor the earnings position of the railroad equipment makers. The first is that the more business obtained, the smaller the necessity to carry heavy volumes of idle facilities. The larger part of the companies' expense in manufacturing is materials, with labor second. These will be higher but then they will also be higher for all hands and will be reflected in new selling prices of cars and locomotives. Contracts for materials are already let for orders now in hand. Corporate taxes

will be increased although due to the industry's heavy over-capacity, invested capital is large and thus offsets the fact that average earnings in the years 1936 to 1939 were abnormally low. Excess profits taxes are not an insurmountable problem. With the prospects for increasing railroad business in a volume not seen prior to 1930 and a strong continuation of demand for munitions and armament, which no other industry has the facilities to produce in such great volume, it is likely that the best earnings of a number of years will be reported for 1941.

Under prevailing conditions, the railroad equipment makers are also favored by the fact that it now seems probable that the armament industry will be a permanent institution in this country somewhat after the fashion of Krupp in Germany, Skoda in Czecho-Slovakia and Vickers in England. Obviously, possessed of a wealth of experience and capacity, some of the leading railroad equipment makers of today will probably be selected as a nucleus around which to found an armament industry in keeping with the size and future responsibilities of this country.

In more normal times, railroad equipment shares sold on a basis of prospective orders. If the same reasoning held true today, the group as a whole would be underpriced. But, with the many uncertainties present, not the least of which is the realization that the current boom could be of a temporary nature and that future taxes might take an increasingly large part of income, no former rule of earnings can be applied. The shares do, however, have many factors which make them attractive on a purely speculative basis.

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### Happening in Washington

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*(Continued from page 183)*

**Home building**, already at a high level, is expected to increase even more rapidly during balance of year. New legislation extending certain F H A provisions also expands home financing program to meet anticipated demand, placing particular emphasis on rehabilitation and subdivision of old dwellings.

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